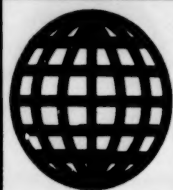


JPRS-CAR-93-082  
10 November 1993



**FOREIGN  
BROADCAST  
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# ***JPRS Report***

# **China**

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# China

JPRS-CAR-93-082

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10 November 1993

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### CPC Journal Discusses Party Reform

94CM0004A Beijing DANGXIAO LUNTAN [PARTY SCHOOL TRIBUNE] in Chinese No 7, 5 Jul 93 pp 43-44

[Article by Xu Shaowei (1776 1421 0251), CPC Central Organization Department Organization Bureau: "To Improve Party Building We Should Properly Handle the Four Relationships"]

[Text] Under a market economy, party building confronts such issues as liberating ideology, changing concepts, improving work, and blazing new paths, and cannot adhere to old ways or rest entirely on past laurels. To enable party building to be more true and consonant with the pulse and tenor of the times, and to further promote reform, opening up, and faster development of the socialist market economy, by strengthening party building, we must master and accurately handle the following four relationships in improving party building.

First, we must accurately handle the relationship between carrying on and innovating. During the long period of revolutionary struggle and developmental experience, our party elaborated principles that practice has shown help strengthen proletarian political party building and an excellent tradition and work style—the principles of focusing on the party's central tasks and political line and the three major, excellent traditions and work styles, for example. All these must be retained and absolutely cannot be forsaken. Nevertheless, while strengthening party building under the guidance of Marxist theory, we cannot ignore and be insensitive to the practical reality of the major changes that have occurred in the present times in which the party finds itself, and in the responsibilities it bears, and allow our thinking to be fettered by old convention, to use old perspectives in judging right and wrong in the real world, to evaluate current work unselectively and unanalytically in accordance with old experience, and be unwilling or afraid to make necessary improvement and innovation in party building. We must recognize that many of the specific methods and experiences employed in party building evolved during the democratic revolution and under the planned economy and may not be applicable, or entirely applicable, in today's realities; some are even the products of "leftist" ideology. Thus we must analyze Comrade Deng Xiaoping's theory of building socialism with Chinese characteristics, eradicate the effects of "leftist" ideology, liberate thinking, renovate conceptualization, proceed in everything that will facilitate strengthening and improvement of party leadership and enhancement of the ability of the party's own development to promote reform and construction, pragmatically and boldly effect necessary improvement and innovation in party building, preserve and elaborate that which is good, abandon the outmoded, and resolutely eradicate everything "leftist." Thus can we enable party building to innovate while carrying on, to develop while preserving, and to meet the needs associated with the effort to accelerate reform, opening, and development of the socialist market economy.

Second, we must accurately handle the relationship between guidance and autonomy. One feature of planned economy is highly centralized management, from which derived the practice, with respect to how party building should be undertaken and what it should do, of setting the tune, outlining the path, issuing tasks, and assigning targets level by level. Organizational structures were installed monolithically, components had to be one and the same, time tables were uniform, activity had but one model, and results were evaluated one way. No distinction held for village or enterprise, and there was but one pattern for the organ and the grass roots. A document would come down, and each level would transmit, apply, and act on it in a mechanical, copy-cat fashion, even if it did not fit reality or was out of sync with productive development. From top to bottom, everyone acted like robots; year after year this went on, such that party building was conducted in a fantastic vacuum, formalism raged, performance was poor, grass-root hands were fettered, and the initiative and creativity of basic-level party work was stifled. As planned economy gave way to market economy, economic management changed such that while the state continues to effect necessary macroscopic regulatory control, enterprise decisions regarding what and how to produce have come to be determined entirely by market demand, and enterprise autonomy has been expanded and effected. Thus the issue of grass-roots autonomy, under the guidance of overarching principles, has arisen. We should allow basic-level organs in all sectors to determine for themselves, in accordance with practical reality, what sort of education they should effect, what kind of activities they should arrange, and what forms they should adopt, so as to mobilize, unleash, and exploit their initiative and creativity in party building. Higher-level organs meanwhile should devote greater effort to summarizing and perfecting experience pioneered at the grass roots and establish and disseminate exemplars therefrom. In implementing party-building reform, we must accurately handle the relationship between guidance and autonomy and prevent the types of deviations: The first is the potential tendency of basic-level organizations to overemphasize their own autonomy, do their own old thing, use autonomy as a pretext to avoid or refuse necessary inspection and guidance from their superiors, or even fail to carry out party activity. The second is the potential tendency of higher-ups to let basic-level organizations do their own thing and to abandon necessary inspection and guidance. Each of these deviations is erroneous. Autonomy does not mean no guidance, but microscopic initiative effected under macroscopic guidance. Granting the grass roots autonomy by no means implies washing one's hands of everything but rather entails, while devolving authority, actively fulfilling the responsibility of effecting macroscopic guidance, going down to the grass roots, carrying out surveys, identifying problems, nurturing exemplars, and more realistically guiding the work of the party's overall development.



Third, we must accurately handle the relationship between ideological guidelines and practical work. Party building must strive for practical results, which entails promoting economic reform. Thus party building cannot diverge from the central task of economic development, be tackled in vacuum involving only itself, and be evaluated solely in terms of its own tasks but rather must be more closely integrated with economic development. We must arrange party building and activity in accordance with the needs of reform and economic development and evaluate party building according to the results of economic development. However, stressing practical results and improving the form and content of party work by no means equates to forsaking party building and directly stressing economic work. Party building must merge with economic activity, which by no means entails replacing the party with economic activity. Focusing party building on the economy by no means says stress economy not party building. One view claims, "Only emphasis on economy is solid and practical; everything else is vacuous and impractical. There is little connection between economic work and whether or not or how much we stress party building." People who hold this view do not understand the dialectical relationship between party building and economic development. The success or failure of party building not only directly and indirectly affects the speed and success of economic development but also potentially affects the future and momentum thereof. The more we reform, open, and develop our economy, the more we need to strengthen party building. We must both prevent stress on party building in a vacuum and divorced from the central task of economic development and initiate work in accordance with the features and laws of party building itself, give full play to the roles of party organizations as political nuclei and of party members as vanguard exemplars, and promote reform, opening, and development of the socialist market economy.

Fourth, we must accurately handle the relationship between form and formalism. Strengthening party building requires solid content, which in turn can only be embodied in concrete form. Thus we must properly distinguish between preserving necessary forms and formalism and cannot treat as formalism and forsake "the three meetings and one class," management by objective, democratic appraisal of party members, "innovative advance and striving to be the best," and the like. For, in fact, formalism does not lie in form itself but in the content form embodies and the goal for which it is employed. If what a form reflects lacks substance or the form is employed as mere window dressing, then this is formalism, no matter how good the form is as form. But if a form embodies the true substance of and is employed to achieve and indeed helps strengthen party building, then this is not formalism. Under a market economy, strengthening and improving party building must also be embodied through specific forms. The good ones that have proved efficacious in the past and still applicable in the new situation should boldly be retained and further enriched and perfected according to new need. Meanwhile, we must boldly seek and adopt

new, effective forms with which to advance party building and thereby promote steady progress in reform, opening, and the great cause of developing socialism with Chinese characteristics.

**Organization Department Supports Party Organization**  
93CM0482 Beijing XUEXI YU YANJIU [STUDY AND RESEARCH] in Chinese No 15, 1 Aug 93 nn 7-8

[Text] To build a socialist market economy, we must emphasize strengthening party organization. The report of the 14th CPC Conference clearly and fully illustrates the guiding thought of strengthening party organization. At present the fundamental reason that party construction should be strengthened instead of weakened is that the CPC's historical task has not been accomplished. The working class must have its own pioneering team—the communist party—if it wants to have complete liberation and really realize its historical responsibility. During the period of democratic revolution, comrade Mao Zedong treated party organization as one of the three magical ways of achieving success. The success of the democratic revolution depends on the party's leadership. At present, when we are constructing socialism and reform and opening up, do we still need a communist party? We believe that nowadays success depends on communist leadership, and projecting into the future, we will still depend on communist leadership.

Without the leadership of the Communist Party, armed with Marxism and with revolutionary theory and style, it is impossible to build a prosperous socialist country in such a populated and complicated big country as China. Some people think that although socialist modernization needs the party's leadership, it is not necessary to set up party organization from the central down to the grass-roots units; they think it is enough if the Communist Party just sets principles and policy and rules the government, not necessarily setting up grass-root organizations. We should gain a clear understanding of this issue.

When Marx established the Communist Party (at that time it was called the Communist Union), he stated that party organizations should be set up from the representative conferences to the central committee to general districts, sub districts, branch districts, and down to the masses. At the Gu Tian Conference, the CPC put forward the important policy of "setting up party branches in enterprises." Party leadership not only is making principles and policies, but also establishing the party organization among the grass-roots units. Our "Party Constitution" definitely addresses this issue, concretely stipulating the eight tasks for party organization at the grass-root units. Party organizations in grass-root units must keep close contact with the masses and understand their opinions; propagate and execute the party's principles and policies and do ideological work among the masses well; organize cadres and masses within and outside of the party to accomplish assigned tasks; and fight against bad tendencies and all criminal conduct.

These tasks for grass-root party organizations are irreplaceable. We absolutely should not just be pleased with central government control of political power; we should also establish the closest relations with the masses through grass-roots party units.

For example, in many areas the social order is bad at present, there are many problems, and the people do not feel safe. Because of this, the central committee has proposed comprehensive administration of the problem. If there is no involvement by the grass-roots units and if the vast grass-roots party units are not the real fighting force, it will be impossible to really realize this comprehensive control. Criminals at large in the society will not be controllable without supervision from people of the numerous grass-roots party units. Certainly, we should strengthen our police force as well as staff in public security organs, procuratorial organs and the people's court; however, without grass-roots party organizations, this will never be enough no matter how you reinforce the police force. Besides, strengthening the party organization in the basic level police force is an important aspect of reinforcing the police. If grass-roots party organization can fulfill their function, we can form a situation where "when a rat crosses the street, everyone cries 'Get it!'" and the bad people will have no place to hide. Therefore, grass-roots party organizations are definitely not optional.

Some people believe enterprises represent economic organization and the communist party represents political organization, so why do we need a political organization within an economic one? We must ask if economic organizations do not need party organization? We all know, there is a famous, even world famous, rich village in China, its wealth is probably the highest in all of China. However, a problem was exposed at this village recently: An abnormal death occurred at the village, but the village didn't even allow the public security organs to investigate and to handle this case. Isn't it serious to hinder the work of law enforcement agencies? If party organization in this place was really functioning, how could such a thing have happened? The lesson this case provides us needs to be summed up well. It at least shows that not everything naturally becomes better with economic growth. We must uphold the four principles and the party's leadership. We also must understand that to uphold the party's leadership not only means the CPC, but also strengthening and setting up party organizations in the grass-roots units.

Some people ask, in foreign-invested enterprises [FIE], who is there for the party to lead? What core role does it play? We say, party organizations there are doing Chinese work. Even in wholly foreign-owned enterprises there are Chinese staff, and wholly foreign-owned enterprises on Chinese soil must employ a fairly high number of Chinese employees. The party is the political core among the Chinese staff. The function of such a core is to unite the Chinese staff to better abide by their contract and ensure the venture's success as well as safe-guarding both sides' benefits by law. Surely the method and working style for party organizations in FIEs should be

different than with other enterprises. However, party work must still exist and party organization must still be established in FIEs. To conclude, no matter in the countryside, military, government, school, street committee, business or institutions, party organizations must be strengthened.

There are also some people who think that administrative officials also can implement the party's intentions and reflect the masses' opinions, so why do we bother to emphasize party organization? Undoubtedly, administrative officials should execute the party's policies and principles, make contact with the masses, understand the masses's wishes, and propagate and teach party policy to people. Administrators should do this work, have the qualifications to do this work, and many have done well in this respect, as we all admit. However, we say that no matter if in regard to the administrative system or the administrative leadership, party organization cannot be replaced. In the end, the individual's usefulness cannot replace the usefulness of the party organization.

#### **Implementation of Civil Service Regulations Urged**

93CM0464A Beijing XUEXI YU YANJIU [STUDY AND RESEARCH] in Chinese No 16, 15 Aug 93 pp 12-14

[Article by Ministry of Personnel Policy and Law Office Director Xu Songtao (1776 7313 7118), edited by Hu Sujuan (5170 4790 1227): "It Is Necessary To Actively Carry Out State Civil Service Regulations"]

[Text] With the leadership of the Party Central Committee and State Council, the establishment and implementation of state civil service regulations is now underway in a planned and step-by-step manner. The establishment of state civil service regulations is a key reform of China's cadre personnel system, as well as a new beginning for making the personnel management of state administrative organs more legal and scientific. It will play active crucial roles in establishing a capable and honest civil service suited to the development needs of a socialist market economy and modernization, raising government administrative efficiency, enhancing anti-corruption in government organs, speeding up the personnel-system reform of other organs, institutions, and enterprises, and evolving a distinctive personnel management system suited to the needs of a market economy.

#### **I. State Civil Service Regulations Are an Inevitable Result of Reform and Opening Up**

Since the Third Plenary Session of the 11th CPC Central Committee, the CPC has set forth a basic line of focusing on economic development, adhering to the four basic principles, and persisting in reform and opening. In these dozen years or so, the guidance of the party's basic line



has brought about a profound change in China's economic system. Particularly since Comrade Deng Xiaoping's crucial southern tour speeches and the 14th CPC Congress, China has established the goal of developing a socialist market economy, reforms have developed faster and more intensively, our previous highly-centralized economic system has undergone a profound change, and management systems and regulations have necessarily been reformed correspondingly, with personnel management regulations being a key reform item.

Everyone knows that China's current cadre personnel system evolved out of the cadre personnel base in our revolutionary war period. It's special characteristics are that no matter party and government organ employees, enterprise managers and technicians, scientific researchers, school teachers, hospital doctors, theatrical company performers, or athletes, they are all generally designated as "state cadres" and managed according to one management style. While this system suited the needs of a highly centralized political system and a planned-economy model, playing a properly positive role in China's socialist revolution and economic construction, the intensification of various reforms has gradually exposed the shortcomings of this system. For instance, an overcentralized and too uniform management style did not contribute to the maturity and excellence of all categories of personnel; its lack of a strict responsibility system—with good or poor performance being treated the same and promotions but no demotions—prevented vitality and vigor in the ranks; and its unsound management system prevented management by law, making it hard to avoid unhealthy employment tendencies. All of these things that were unsuited to market economy needs had to be reformed.

The intensification of economic reform made personnel-system reform imperative. As far back as at an expanded Politburo session on 18 August 1980, Comrade Deng Xiaoping had stated clearly for the first time "the need to break down old conventions and dare to reform inappropriate organizational and personnel regulations," as well as pointing out about cadre personnel reform that "the key is to set sound cadre terms of office, and to make clear and appropriate provisions for leave and retirement that vary according to conditions." With Comrade Deng Xiaoping's ideological guidance on cadre personnel reform, in the last dozen years or so all regions and sectors have actively tested cadre personnel reforms, accumulating much good experience and achieving great successes. These were mainly: the cadre "four-more" principle of "more revolutionary, more youthful, more intellectual, and more professional" was established; a regular retirement system was established, eliminating the existing lifetime jobs of cadres and leaders, and setting up a normal transition from old to new cadres; the cadre management system was reformed, changing subordinate management from two grades to one grade; the cadre appointment system was reformed, changing the single appointment form to diversified ones, such as selection by election, testing, and appointment; based on

organizational and institutional differences, graded management experience was acquired through exploration. Enterprises in particular, due to the pressing need to convert operating forces, made great strides in personnel-system reform. For instance, they enjoyed greater employment authority, so they introduced competitive forces into their personnel management, breaking through the cadre-worker status lines, practicing a hiring system for managers and technicians, and gradually making it possible for workers and cadres to be both promoted and demoted. All of these reforms were useful attempts at establishing a personnel management system suited to organizational, enterprise, and institutional differences, laying the foundation for the establishment of state civil service regulations.

Based on having summarized cadre personnel-system reform practice and studied and drawn on useful overseas experience in personnel management, the 13th CPC Congress decided to establish and carry out in China a state civil service system, making the establishment of state civil service regulations the focus of cadre personnel reform. So it can be said that establishing state civil service regulations was an inevitable result of China's reform, opening, and development of all causes.

## II. The Significance of, and Guiding Ideology in Carrying Out Civil Service Regulations

The so-called state civil service system requires drawing up laws and regulations and carrying out the state's administrative right towards government organs and carry out scientific management of state civil servants. The establishment of state civil service regulations means the initial establishment of an organizational personnel management system with distinct Chinese characteristics which will have crucial and positive significance in realizing the party's basic line and speeding up national economic and social development.

1. The establishment and implementation of state civil service regulations will break organizational cadres out of the centralized ranks by establishing a personnel management system suited to organizational characteristics which will help to adjust the cadre structure, raise the political and professional quality of organizational employees, strengthen the government command system, make for more diligent administration, eliminate bureaucracy, improve administrative efficiency, and promote social advances and developments suited to China's reform and opening up and modernization and development of a socialist market economy, thus providing the organizational guarantees for the party's basic line of adhering to a focus on economic development, upholding the four basic principles, and persisting in reform and opening.

2. Establishing and carrying out civil service regulations will contribute to more honest government. The crux of honest government is better personnel quality and

stronger regulations; in these two areas of honest government the civil service regulations precisely provide safeguard mechanisms. Steps such as employment through testing, strict management, and standardized training will provide better civil servant quality; regulations in areas such as rights and responsibilities, discipline, taboos, exchanges, and oversight will ensure that civil servants act honestly according to law; and legalized personnel management will prevent unhealthy personnel management tendencies. Thus, establishing and carrying out civil service regulations will play a promotional role in building honest government.

3. Setting up and implementing civil service regulations will help to make organizational personnel management more scientific and legal, while playing a promotional role in personnel system reform for other organizations, enterprises, and institutions.

In the course of setting up and implementing civil service regulations, a guiding ideology will be crucial, being the basic way to ensure the healthy development of the system. We have learned through practice that in order to set up a civil service system with distinct Chinese characteristics, it will be necessary to adhere to the following guiding ideology:

1. We will need to adhere to the basic line of focusing on economic development, upholding the four basic principles, and persisting in reform and opening. This general guiding ideology runs through the general rules and regulations, civil servant rights and responsibilities, and all management links. The establishment and carrying out of civil service regulations will help us achieve the goals of consolidating the regime and achieving long-standing state security and stability, developing the cause of reform and opening, liberating and growing our productive forces, and developing our economy. This is the crux of adhering to the party's basic line, as well as the particular expression of civil service adherence to the party's basic line.

2. We will need to carry forward and develop the excellent traditions of China's cadre personnel management. Our party has long been evolving many fine experiences and methods of cadre personnel management, such as the principle of party control of cadres, the cadre "four-more" principle and the employment criteria of both ability and political integrity, the aim of serving the people, and the mass line on cadre management. These experiences that have proved effective through practice will be fully reflected in our civil service regulations.

3. We will need to assimilate and sum up our successful experiences in cadre personnel reform over the last dozen years or so. Since reform and opening, we have accumulated rich personnel-reform experiences, such as introducing competitive mechanisms to personnel management, and practicing appointment, hiring through testing, and cadre taboo systems, which have added unprecedented vitality to our personnel management.

The civil service regulations fully assimilate these reform successes and elevate them to legal status, giving the civil service system competitive-mechanism incentives, to adapt to the needs of reform, opening, and building a socialist market economy.

4. We will need to study and draw on the useful experiences and methods of foreign personnel management. While the civil service system is a joint achievement in the development of human civilization, with many scientific management methods having been drawn on by all countries, and China's imperial examination system having drawn on the British civil office system, the civil service is after all a part of the superstructure, which invariably needs to be suited to a country's particular economic and political system. Premised on adhering to the principle of our civil service needing to be suited to China's national conditions and having distinct Chinese characteristics, we are also drawing on useful scientific management methods and principles in foreign personnel management, such as the principles of civil service management being open, just, competitive, and excellence-selecting, based on merit and achievement, and institutionalized in law. But as our national conditions differ, we are not adopting the methods of some countries, such as civil servants being "political intermediaries," or the separation of government and business officials into a "dual official" system, which make the civil service a closed system.

As we are adhering to this guiding ideology in the process of establishing state civil service regulations, China's civil service system will be one with distinct Chinese characteristics suited to China's national conditions.

### III. The Major Substance and Features of China's Civil Service Regulations

Comrade Deng Xiaoping has pointed out that "system issues are more important." A strict and scientific personnel management system is an essential factor for creating a high-quality government-organ employee corps. The establishment of state civil service regulations will enable legal management through laws and regulations of state civil servants exercising state power through government. Thus, state civil service regulations are a more complete personnel legal system, with contents rich enough to clearly set forth all civil service management links, from entry to retirement.

In civil service "entry," the method of employment through testing will ensure that the personnel joining the civil service ranks are of high quality.

In management, adherence to strict civil service management and requirements, through practicing an evaluation system, investigating civil servant performance, and linking evaluation results to civil service rewards and penalties and job promotions and demotions, will provide competitive incentives and spur civil servants to perform their duties industriously. The regulations will also provide for items such as civil servant rights,



responsibilities, discipline, and taboos, helping to further promote industriousness and honesty in the civil service. The establishment of strict and orderly management training and exchange systems will also improve the political and professional quality of civil servants.

In management links, the wage system is an important incentive mechanism. The civil service will practice a job-graded wage system which, through setting up the four parts of job wages, graded wages, basic wages, and seniority wages, will bring the function and role of wages into better play, implement the principle of distribution according to work, and eliminate equalitarianism and "bureaucratic departmentalism," while establishing a regular wage-increase system to steadily raise civil servant salaries, which will help to attract and stabilize talent and excellence in government-organ work.

In "severance," civil service regulations will set up an in-service seniority ladder structure and systems, such as firing, leave, and retirement, dredging and expanding civil servant "severance" channels, which will contribute to succession in the civil service ranks, enhancing vitality and vigor.

In contrast to our traditional personnel management system, this state civil service system will be more suited to our new-age needs of reform, opening, and socialist construction, which will be characterized mainly as follows:

1. It will reflect the graded-management principle, suiting civil service regulations to state and government administrative organs, and making a distinction among the personnel management systems in enterprises, institutions, and other organs, to change the past centralized cadre management style of a single model, showing that a personnel management system with distinct Chinese characteristics has begun to take shape for state administrative organs.

2. It will have scientific competition forces and incentives. Civil service recruitment will be through open examination, with strict assessment and employment of excellence. Civil servants will be strictly evaluated, with evaluation results being the grounds based on set procedures for civil servant rewards and penalties, training, job promotions and demotions, wage increases, and job adjustments, enabling promotions and demotions, excellence through competition, and elimination of the phenomenon of "good or bad performance having the same result."

3. It will provide a normal succession mechanism. On one hand, the civil service regulations will deal with personnel recruitment strictly, by requiring civil servants to have a set quality. On the other, while establishing a regular retirement system, they will stipulate personnel exchanges, with some jobs practicing an appointment system, gradually realizing a maximum job-seniority ladder structure, and adopting methods such as firing and retirement, enabling civil servants to come and go, to enhance organizational vitality.

4. It will have mechanisms to ensure diligent and honest government. Diligent and honest administration is a

basic requirement for civil servants, which runs through all civil service regulations and management links, such as rights and responsibilities, discipline, hiring, promotion, evaluation, and rewards and penalties. Moreover, the practice of taboo regulations and exchange systems will institutionally promote honest administration.

5. It will have a sound system of laws and regulations. In addition to the general laws and regulations, i.e. the "Interim Regulations for State Civil Servants," the civil service regulations will also include various individual laws and regulations and application details to form a sound legal system, in order to ensure that civil service management has laws to rely on, so that it can gradually get onto a track of legalized management.

#### **IV. Carrying Out the Civil Service Regulations Actively and Reliably**

"We must implement a civil service system as quickly as possible." This was the demand made by the 14th CPC Congress on carrying out civil service regulations. Then the First Session of the Eighth NPC further clarified this, pointing out that "to complete regional and departmental structural reform, it will be necessary to practice a state civil service system." It could be said that with the further intensification of economic and political reform and the gradual institution of structural reform, the establishment and implementation of China's civil service regulations will reach new heights.

Conditions are now ripe for the full implementation of civil service regulations. 1. Through nine years of efforts, we now have a mature basic law—the "Interim Regulations for State Civil Servants," which provides a viable legal grounds for carrying out civil service regulations; 2. We have over four years of pilot-project experience by six State Council departments and two local municipalities in carrying out civil service regulations, as well as national experience in practicing systems such as recruitment, taboos, evaluation, promotion, exchange, and training, which have paved the way for the full implementation of civil service regulations; 3. The work begun in recent years in training a civil service backbone has provided us with the core forces needed to fully implement civil service regulations. Thus, it can be said that the full implementation of civil service regulations is not only imperative, but also feasible.

As carrying out state civil service regulations is a complex social-systems project, involving the vital interests of state administrative-organ personnel as well as government and social stability, it must be capably organized based on the principle of acting positively and safely, with overall plans, bold practice, and progress in a planned and step-by-step manner.

We believe that with the encouragement of the spirit of the 14th CPC Congress and the First Session of the Eighth NPC, combined with intensified structural and wage reforms and the joint efforts of all parties, a civil service system with distinct Chinese characteristics will certainly be established and steadily improved in China.



## NATIONAL AFFAIRS, POLICY

### Economists, Officials Discuss Macroeconomic Issues

94CE0035A Beijing GUANLI SHIJIE [MANAGEMENT WORLD] in Chinese No 4, 24 Jul 93 pp 25-31

[Collection of essays under the heading, "A Study of Macro Regulation and Control Issues in the Transition to the Market Economy." The first paragraph in italics is a source-supplied editorial.]

[Text] **Editorial:** *To further promote the studies on establishing a socialist market economy, on 9 June of this year, GUANLI SHIJIE and XIANDAI QIYE DAOKAN [MODERN ENTERPRISE REPORT] invited experts and scholars to a symposium on "Macro Regulation and Control Issues During the Transition to the Market Economy." The participants engaged in thorough discussions and exchanged ideas on the country's economic situation in the first six months of the year, on the state's current macro regulation and control, and on further improving the market economic mechanisms. The delegates' speeches no doubt will help people understand and learn about those issues. This journal is sharing the information with its readers by publishing some speeches.*

**Sun Shangqing [1327 1424 3237] (Chairman, State Council Development Research Center)**

Today, we are in the midst of the transition from the traditional planned economic system to a socialist market economic system. We need to deal with many problems from a new perspective, using new ideas. In particular, various journals should provide the space for people to express these new ideas to promote in-depth reform, further opening up, and economic prosperity. Since early this year, General Secretary Jiang Zemin has reiterated that when China turns to the market economy, it is very important to educate the grass-roots cadres about the market economy. In his opinion, if the grass-roots party and government cadres do not understand the basic laws of how the market economy works, if they do not understand the laws of the market economy, and if they do not understand the basic categories of market economy, it will be very difficult to build a socialist market economic system. This shows the Party Central Committee and the State Council are putting much emphasis on using market economic approaches to solve the economic problems.

How should we interpret the economic situation in the first 6 months of this year, and how should we handle macro regulation and control so that we can sustain the momentum of healthy economic growth? Not long ago, Comrade Li Tieying [2621 6993 2503] said that macro regulation and control play a very important role in the establishment of a socialist market economy, but today, neither our use of macro regulation and control measures nor the design of macro regulation and control programs is satisfactory; the macro regulation and control measures are not properly coordinated, and we have no supervision and control goals. In particular, he urged us

to find out what regulation and control measures we should adopt when the economy has grown to what extent and when economic growth has slowed to what extent and how we should coordinate different regulation and control measures in order to keep the national economy growing at a good and fast pace.

Here I will briefly state my own viewpoint. In my opinion, overall, China's economy, reform, and its opening up to the outside world are doing fine, but there are also some problems which we should pay attention to. Perhaps the focal point of macroeconomic regulation and control should be to strive to reduce the amplitude of the economic cycles. Economic development cycles are regular occurrences and are difficult to avoid, but the magnitude of cyclical fluctuations can be reduced. Large magnitudes can cause more economic damage. This has been proven by economic developments in China and abroad. Thus the focus of regulation and control is to minimize the severity. As for the supervision and control goals, there are many, but we should focus on the important ones. In my opinion, we should focus on, one, the rate of economic growth; two, the rate of inflation. This year we should control the two indexes at about 10 percent—the economic growth rate should be around 10 percent and the inflation rate should be under 10 percent. Of course inflation is a more complicated issue. It is estimated that this year, the nation's retail price index may top 12 percent, and even though the goal allows the index to be double-digit, it should not exceed 10 percent. However, this is fairly difficult. In addition, we must insist on small-magnitude adjustments, that is, regular and timely micro adjustments, and we should coordinate different regulation and control measures. In this way, we can sustain and build on this year's fine economic development momentum. Finally, I want to use the simplest language to sum up my most basic point: Focus on reducing the amplitude, set the two control targets at 10 percent, make regular and timely micro adjustments, and strive to sustain and build on the good economic development momentum.

**Wu Jinglian [0702 2417 8804] (Senior Researcher, State Council Development Research Center)**

1. How do we assess the economic situation in the first six months of this year?

Last year there were on-going disputes over the question of whether inflation had flared up in the latest round of economic upsurge. Today, after taking some time to discuss the matter, and as things developed, we now have a clearer idea of the situation. I think most people would agree with the statement made by the State Statistics Bureau spokesman: "Inflationary pressure is being released." The root cause of inflation is excess money supply and is manifested by the steady rise in the overall price level. But there is a time-lag between the increase in the money supply and the rise in the overall price level.

That is why economists were arguing over the indications of inflation as early as a year ago. But it was hard to tell back then, because it was difficult to say whether inflationary pressure was building up at that time. Looking back today, in fact, some inflationary pressure might have been building since the fourth quarter of 1989 when the central bank eased credit control. In the first three quarters of that year, the credit volume increased 60 billion yuan, and in the fourth quarter, it grew by more than 120 billion yuan, and we have had a loose credit policy since. But did it create inflationary pressure? It was hard to say back then, because a new situation had emerged, that is, as reform of the financial system continued to deepen, different financial measures continued to emerge, and financial assets also increased. In addition, it was at that time that land-leasing began, and land was put in the market and attracted substantial amounts of money. Therefore, although the money supply grew rapidly, it did not generate inflationary pressure. Furthermore, there were other factors that changed the people's consumption pattern. For example, because of the proposed reforms of the social security system and the housing system and so on, people needed some money to guarantee fund liquidity. But foreign economists, such as Majinnong [phonetic] and Shultz [Xiaolinshi], repeatedly warned us not to let these very fortunate situations put us off guard and urged us to be on the alert, because any time we might run out of this "good fortune," we might feel real inflationary pressure, and if we made a mistake in our observation and had no countermeasure in the face of inflation, it would be very dangerous. In their opinion, we went through the process in 1981-1984, and today's situation is very similar. Last year at this time, there were many signs showing that inflationary pressure had indeed built up, and today it has gathered substantial momentum. Moreover, inflation has one characteristic, that is, if inflation does materialize as expected, it tends to gather momentum on its own and turn into a vicious cycle. In April of this year, savings showed negative growth. This was similar to the situation in 1988. Thus, we must treat the gathering momentum of inflation very seriously.

## 2. What should we know about the causes of this round of inflation?

Generally speaking, inflation is caused by excess increase in the money supply. Then what caused the excess money supply? If we analyze the cause, we will find that the central bank's monetary policy is flawed. The central bank has two channels to put large amounts of basic money into circulation: One is through the financial system. "IOUs" are a good example. After issuing billions in "IOUs," how much money will we need to retrieve them? Another is through the large and medium-sized state-owned enterprises. Banks have lent the state-owned enterprises large sums of money. Overall, the central bank has three problems: 1) It has too many goals. Based on economic needs, the central bank should have one independent goal, that is, to be independently responsible for stabilizing the currency. But because

China's central bank is not entirely independent, the government's goal often becomes the bank's goal. For example, sustaining a high rate of growth and maintaining social stability are the central government's business, but China's central bank has also been given those responsibilities. This makes it impossible for the bank to effectively perform its duty to stabilize the currency. In addition, the banking system is set up according to the administrative system. The goals of each level of government also becomes the bank's goals; there is no independence to speak of. 2) The way the central bank itself is set up tends to localize the regulation and control system. The administrative system is cut into chunks, and it is impossible to execute macro regulation and control at different levels. In particular, when it comes to controlling the total quantity of money at the macro level, if administration is cut into chunks, there can be really no control. 3) The central bank is the state's authority on money; it should not be profit-motivated. However, today the People's Bank organs at below the province level do participate in profit retention. This prompts them to invest in profit-oriented undertakings and leads the central bank to adopting expansionary policies. Things that are unlikely to happen anywhere else in the world are considered normal here in China: The central bank owns stock in one or more of the four new major securities companies. This is inappropriate. The central bank has the power to issue money; it should not engage in profit-oriented undertakings. In economic terms, its inflationary policies are profit-driven as it pursues an expansionary monetary policy.

On the other hand, if we look at the commercial banks, they really do not look like commercial banks. First of all, commercial banks should be enterprises. They are enterprises that deal with money and capital. Like enterprises that buy and sell goods, they pay interest to attract deposits and collect interest to sell the right to use capital (loans). But today our commercial banks are taking on many policy-oriented fund gathering functions which should have been performed by the government. They are not the duties of commercial banks. Second, commercial banks are not acting like enterprises either. For example, in setting interest rates, if they were enterprise-like operations, the price of money would be interest; the interest rate would be determined by supply and demand in the market. But currently our interest rates are determined according to administrative order which decides how resources are to be allocated, and policy-oriented and business-oriented fund gathering are commingled, and this produces low, or negative, interest rates. As a result, those who managed to borrow money are getting a subsidy. Everybody wants to borrow more, and the banks cannot withstand this kind of pressure and are lending large sums of money, and this creates an inflationary monetary policy. Furthermore, banks do not have credit management principles; funds are not directed to where they generate the most profit. Moreover, because there are no clear property rights and nobody is responsible, once the money is lent out, "the two ends squeeze the middle": Apportionments and

exorbitant taxes and levies take away part of the money, and there is no production fund left. Thus, on the one hand, large sums of investments only produce very low returns, and the increase in real material wealth cannot keep up with the fund input; on the other hand, there is a large gap between total supply and total demand. At the end, inflation is inevitable.

3. What measures should be taken to stabilize the economy and promote reform?

I think there are useful measures at three separate levels. At the first level, the measures are the same as those taken in previous rounds of adjustments. They are mainly administrative measures, such as controlling the loan volume. Since last September we have been using some such measures. These measures should be kept at today's strength. However, we must soberly recognize that today's situation has changed drastically, and these measures will not be very effective. There are many ways to circumvent credit volume control. Perhaps previously not only did we pay too much attention to  $M_0$  but we also paid too much attention to the credit volume, while in fact it was much more important to find out how the central bank attained its power to create money. If this "flood gate" is not shut, it will be a waste of time and effort to build a dam downstream to stop the flood water.

The second level measures are the three major policies of the market economy. All three measures are usable, but they are a little late now. The micro adjustments mentioned earlier are also called steady money supply according to Friedman. When putting in money, we should pay attention to the quantity, and when taking money out, we should not rush things. We must look at the actual situation. If during the debates of last year we had adopted measures to make micro adjustments, things might have been better today. Looking at the current conditions, from January to April of this year, the rates of increase of  $M_0$ ,  $M_1$ , and  $M_2$  all exceeded that in 1988; the situation is very serious. The economic measures we are taking now to make micro adjustments, such as adjusting the interest rates, are too slow, too little, and too late. Although the loan rate has been raised 0.82 percent, it is still a negative rate. Perhaps this decision was made out of consideration for enterprises' ability to bear. Actually, however, many enterprises admit that even at 15 percent interest, it is not easy to obtain a loan; there are all kinds of rebates and bribes and so on. Thus, we must quickly adjust the interest rates properly. In a book written by Mr. Li Kuo-ting [2621 0948 7844] of Taiwan, he talked about how Taiwan dealt with inflation after the petroleum crisis in the 1970's. Two measures were taken—liberalization of credit loans and development of the money market, and at the same time, the negative interest rate was raised to positive, even fairly high, rates. For several years, the deposit rate reached 2-5 percent or at least zero. Compared to Korea's decisions at that time, Taiwan was successful in weathering the inflation caused by the petroleum crisis.

The third level measures involve radical reforms. Considering that there are many loopholes in our economic system and there are many problems in the operating processes, I am always worried that taking only the first- and second-level measures will not be adequate and that they will not produce results soon enough. Therefore it is essential that we make radical changes in the financial system and the system of state-owned enterprises. Although these reforms cannot be achieved overnight, they must begin now. We must let the central bank be a bona fide central bank, let the specialized banks be bona fide commercial banks, and let state-owned enterprise be bona fide enterprises. This radical "restructuring of the system" cannot be delayed any further.

The problems the monetary system is facing are not isolated. If we want to normalize the monetary system, implementing internal reform of the financial system itself is not enough.

The first problem is that if the tax system remains as it is, regardless of book deficit or real deficit, the pressure will be put on the financial system. "In the event of a financial deficit, let the bank print money": Deficit financing is an expansionary macroeconomic policy. Under this condition, it is impossible to normalize the monetary system.

The second problem is the international finance and foreign exchange problem. So long as the domestic currency is not convertible, there will be many foreign exchange problems. For example, after the introduction of the policy of allowing people to take 6,000 yuan out of the country, yuan transactions began to appear in Hong Kong, and some Hong Kong merchants are buying yuan, making a lot of money. This situation has caused a serious outflow of funds. Recently, rumor has it that some futures companies are willing to settle accounts in Hong Kong. This in fact is another channel draining our funds. The reason for these problems is that the order of reform is wrong; what should be done later is already done now. International experiences show that the successful approach would have been to allow the currency to become convertible for the regular balance of international payments items before the capital items. Among the regular items, the trade items should be the first to become convertible; non-trade items should be classified, and we should take a more cautious approach. Otherwise, because it is difficult to distinguish trade and non-trade items, it will be easy for capital to flee, disguised as a non-trade regular item. But today we have reversed the order of introduction of these measures, and that is why we are having problems.

The third problem is also related to the reversed order we talked about earlier. It is the problem with speculations in the stock market. The shareholding system is a good thing, but what we should have done first was to "restructure the system," that is, we should have turned enterprises from the state's administrative appendages into limited liability companies and set up shareholding companies that complied with international standards.



and after the shareholding companies have operated for a while and society has learned more about their operations, we would then allow their stocks to be listed and traded in the market. But we have reversed the order, and as a result, the stock market has nothing to do with enterprises' actual operating conditions and has nothing to do with whether they are profitable or not. The market in every sense is a place for speculations. We all have read in the text books that Keynes said that the market has two sides: One side is like a gambling house, and the other side is where stock exchange and management constrain and complement each other, and only then can it have a positive side. If we only develop the gambling side, no good will come out of it; it will only create a subsidy economy, and some economic parameters will be distorted and will become useless. For example, how high must the interest rates be raised before funds will flow to the high profit areas? There is no way to determine this now, because the payback rate for speculating in the stock market is so high.

Then what measures should we adopt to solve these problems? I think there are only two: One is to pull things back and the other is to hurry up and do what we must do. I am afraid we have to do both. We must hurry up and decontrol foreign exchange used in trade. The capital accounts are already too "liberalized." The same applies to the stock market. The basic groundwork includes setting up shareholding companies that comply with international standards, utilizing an accounting system that meets international standards, and making public the listing enterprises' financial statuses. These matters should be pushed forward. At the same time, some things should be pulled back and control should be tightened. I think tight control is not necessarily a negative approach but can be a positive approach. In short, these measures should be coordinated. The measures at these three levels to deal with inflation should be fully integrated; we should not look at only one measure. We want to avoid treating the head for headaches and treating the foot for foot pain—treating only the symptoms and not the disease.

Besides the above suggestion, I believe that the leaders, economic researchers, and news reporters should work hard together to promote reform. From the point of the economic researchers, they should take the attitude that they are responsible for the state's economic tasks and they should do more research and engage in more discussions and strive to make the discussions more profound and ask more specific questions and provide scientific bases for decision-making. As for the leaders, they have little time to read articles and books and are always hoping to have quick solutions to the problems. This is understandable, but they must also realize that "a single solution does not solve all problems," and so no matter how busy they are, we hope the leading comrades will still take time to study some basic theories. This is not difficult, and it can be very helpful. As mass media, newspapers have not been doing a very good job. Unlike ordinary citizen complaints, newspaper articles do shape social opinions and create a general trend. How newspapers filter out things that are specious is

a very serious matter. Popular viewpoints are not necessarily correct viewpoints. For example, the analyses and publicity some newspaper gave to issues such as "Is Gathering Funds Through Stocks the Best Approach?" "Do Stock Prices Represent Profit?" and "Can Fluctuating Stock Prices Hamper Enterprise Management?" were completely contrary to the real answers in the modern market economy, and they confused the people. Newspapers have the obligation to clarify those concepts and situations that are or can be confusing.

**Cheng Xiusheng [4453 4423 3923] (Chairman, Comprehensive Economic Department, State Council Development Research Center)**

Currently the hidden pressure of inflation is being released; there is little disagreement about the economic situation any more. The fact is, the hidden pressure of inflation did not appear just in the last year but has always been there. It was not released because conditions were not ripe. Early last year, we analyzed the quantity of money in circulation in proportion to China's GNP and compared that with other nations'. We discovered that the ratio of  $M_2$ , which is the money supply in the broad sense, to the GNP is about 1. The ratios in other nations (except Japan,) including the developed European and American nations, are lower, and in fact they are substantially lower. In 1992, China's ratio was 1.04-1.05, growing at a rate of 4-6 percent a year. However, prices were stable back then, and we thought it was because of two reasons: One, China's economy has a dual structure; the rural economy's stability has a significant impact on the market. Two, China is in the process of changing to the market economy, and the law of money circulation is unique and is different from that in other nations that already have a market economy. But no matter what, there has always been tremendous hidden inflationary pressure; it just has not turned into actuality. In my opinion, in the near-term, even if we regulate and control prices to achieve stabilization, such pressure will not disappear altogether.

Faced with an overheated economy and the release of inflationary pressure, we must adopt different measures in different areas to rectify the situation. First, we should make the most use of the market economy's three main policies—fiscal, monetary, and revenue policies—to regulate and control of the national economy indirectly. China is in the midst of changing from the old system to the new system. The old regulation and control measures are gradually losing their effects, but the new indirect macro regulation and control measures have not been perfected, and our macro regulation and control capability is relatively weak at this time. Today, the state has financial difficulties; it is financially strained, and there are few financial expenditure levers. The only lever for macro regulation and control is monetary policy, and indeed, the measures are inadequate and there is tremendous pressure. Yet, there are some indirect measures we have not sufficiently put to use, such as bank interest rate policy, and there are other measures we have not tried, such as bank discount rate policy and fiscal revenue

policy. Fiscal revenue policy is a kind of financial lever. Adjusting the fiscal revenue policy in an economic upsurge not only gives the state an opportunity to increase its financial strength and ease its financial trouble but also cools the overheated economy. Specifically, an income tax policy also works as a revenue policy to reduce the widening income gap, killing two birds with one stone, which is something worth considering. Nations with a well-developed market economy often adjust their fiscal income according to the state of the economy. Statistics compiled in the first few months of this year showed that enterprises' realized profit tax has increased more than 40 percent but there has been practically no increase in fiscal revenues. Others have estimated that keeping today's tax rates unchanged while strengthening tax collection and management to reduce revenue losses can increase government revenues by as much as 10 billion yuan. Thus there is still much we can do with the indirect control and regulation measures, and they can produce clear results.

Second, we must get a handle on the relationship between reform and development. The problems we are facing today are the labor pains inevitable during the birth of a new system. But we must try to minimize the problems as we change tracks and reduce this kind of labor pain to what the economy and society can tolerate. This calls for proper handling of the relationship between reform and the economic process. We have a saying, "development must create a fairly good environment for reform." This is very important to accelerating the reform process and establishing the new system of a socialist market economy. We should continue to uphold this principle. And there is something else: The short-term results of reform must harmonize with the reality of macro regulation and control. Every reform measure has its long-term effects and short-term effects. From the perspective of overall balance, the short-term effects can be classified into those that increase demand and those that reduce demand. When the economy is in an upsurge and there is much inflationary pressure, we should introduce primarily measures that curb demands. When the economy is sluggish, we should introduce primarily reform measures that increase demand. Selecting reform measures according to this principle and concentrating on measures that curb the excess demands not only can help promote reform but will also help ease today's price increase pressure.

Finally, we must coordinate supply management with the structural policies. Only in this way will demand management and total quantity control be effective. The decontrol of nonstaple food prices in the cities once benefitted from the "market basket project." In 1988, efforts to control inflation benefitted from the development of agricultural production and improvement in the supply of agricultural products. In fact, even in nations with a market economy that let market mechanisms determine prices, interest rates, and exchange rates, in some nations and at times, the economy may develop steadily, but in other nations and at other times, things

may not work. There is a structural issue involved. For example, the commodities market determines the demand price and enterprise production determines cost, which is the supply price, and if the two are coordinated, prices will be stable, but if there is a wide gap between them, prices will fluctuate. In the fund market and the foreign exchange market, the situations may not be the same, but the mechanisms work the same way. Currently in China, there is obvious imbalance in economic developments between the ordinary industries and the basic industries, between the urban areas and the rural areas, and among the east, west, and central regions. When we implement total quantity regulation and control, we must adopt supply management and structural policies to support and promote the development of the rural economy and the economies of the central and western regions and promote the development of the basic industries, so as to improve the supply mix and reduce the structural conflicts that hamper total quantity regulation and control.

**Gao Tiesheng [7559 6993 3923] (Vice Chairman, State Planning Commission Market Department)**

Today everybody is concerned about developing the market system and giving play to the resource allocation role of the market mechanisms, because this is an important part of the transition to the market economic system. But the marketization path the well-developed capitalist nations took was not exactly the same as that taken by China as it turns to the market economic system. In this respect, there is a difference between the countries that developed first and those that developed later and between the large countries and the small countries. They share some general characters but also have individual characters. To us, the most important thing today is to find out what role the government should play in market development in this transition period to the market economy. What should the government interfere in, and what should be left to the market's own development? We probably cannot wait for the market to perfect itself, nor can the government "guarantee" market development. The question is how to accurately gauge the scope and the strength of the government's role. Based on initial understanding, many local governments were eager to "create their own markets behind closed doors," and suddenly we found a dozen and even dozens of large markets with national impact. The result was waste of money and manpower; we ended up with many empty-shell markets with no business. Some central government departments rushed to announce their "authoritative" departments to guide market construction and demanded that the lower levels "obey" them. But there were so many decisionmakers on top that those below had no idea whom to obey, and there were no serious effort to provide concrete guidance and service for market construction. In my opinion, as China moves toward the market economy, it must emphasize the government's role, and the government must find a proper place for itself in developing the market economy.



**Wu Xiaoling [0702 2556 7227] (Vice Chairman of the System Reform Department, People's Bank of China)**

Today, the ship of reform has sailed to a very critical spot. If we do everything right and adopt the correct macro regulation and control methods, we can further deepen the reform and steer the situation in a even better direction. If we adopt the wrong methods, we will miss a very good opportunity. Today, those at the top and below, those on the outside and inside are paying close attention to the issues. What is gratifying is that we have reached the consensus that today we can no longer use the old methods to deal with the economic problems before us. The central leading comrades have pointed out in several speeches that we must use economic measures to deal with today's economic problems. Although today the central authorities are not making quick decisions, they are making correct decisions, and because of this, I am optimistic about the situation.

As far as the overall economy is concerned, our macro regulation and control goal is moderate economic growth and moderate inflation rate. But to achieve this goal, we must consider more financial and monetary policies rather than the old mandatory orders and quotas. Today's financial outlook is bad; everybody realizes this. If we want to escape this kind of financial plight, we must use even more, even better financial credit measures. In other countries, government bonds are gold bonds, but they do not enjoy the same reputation here in China. This is because we have never made good use of them. They should be issued more to institutions, but we have targeted individuals, and our bond rates are still not completely market-oriented. Furthermore, the state bond market needs financial support, but our financial and monetary policies are not sufficiently coordinated. Monetary policies should be relatively independent, but whenever we have financial deficits, we turn directly to bank overdrafts. This is detrimental to the effort to curb inflation. Thus, to bolster the state's financial credit, we must build a wall between the financial ministry and the banks. Financial deficits must not be remedied by direct bank overdrafts. The central bank must support the financial ministry's credit through the bond market. Here, the bond market becomes the bridge between public finance and the banks; it becomes a firm basis for indirect regulation and control.

Our macro regulation and control goal is to minimize the amplitude of economic cycles. Economic cycles are inevitable, but we can use the art of regulation and control and our leadership ability to control the severity of fluctuations. Therefore, we must especially pay attention to relying on financial policies, such as interest rates and exchange rates, but especially interest rates, to make micro adjustments. Today, we can say that price reform basically has been a success; the market system is slowly being perfected. The market response after the central bank adjusted the interest rates recently proved this point. The question now is who has the decision-making power and the responsibility to make the micro adjustments. If the power should be in the hands of the central

bank, then society should organize a monetary policy committee. In addition, the central bank should analyze the money supply in the market everyday, but our central bank is practising a monthly report system, that is, it analyzes the financial situation and makes adjustments once a month, at the end of the month. This obviously will not achieve the micro adjustment goals. Today, the central bank is considering a 10-day report system. This will help the central bank shoulder its micro adjustment responsibility.

### **Special Commentator on Macroeconomic Control**

*94CE0008B Beijing ZHONGGUO XINXI BAO  
in Chinese 1 Sep 93 p 1*

[Article by special commentator Zhang Jiaheng (6774 1367 0077): "Macroeconomic Regulation and Control Needs To Combine Stopgap Measures With a Permanent Cure"]

[Text] All areas and departments have begun to achieve results recently from conscientiously implementing CPC Central Committee and State Council measures to strengthen macroeconomic regulation and control, with the general state of affairs steadily improving, which can be seen mostly as follows. Industrial enterprise output value at the township level and above throughout China is down, with excessively high industrial growth rates down somewhat. New capital construction and upgrading projects throughout China are down sharply, with provinces and autonomous regions, such as Liaoning, Hebei, Shandong, Jiangsu, Zhejiang, Fujian, Guangdong, and Guangxi, down from their original more than 1,200 development zones to only a little over 200, and planned area down from over 7,500 sq km to 1,600 sq km, showing that the "development-zone fever" is cooling down sharply. As the RMB-conversion exchange rate is up, and bank-deposit interest rates have been raised twice, resuming insured-value savings, the individual consumer mindset is more stable. The key capital goods buying and selling rates have slowed, with transaction volume down, and key commodity supply and demand conflicts have eased somewhat, with prices stable but falling somewhat, and inventories continuing to climb. In July, exports turned from a 9.1-percent drop in June to a 6.5-percent rise, with state cash exchange settlement also beginning to rise slightly, and the conversion-market RMB:U.S. dollar exchange rate gradually climbing from 11:1 at the end of June to 8.8:1 by the end of July, and continuing to stabilize. In July, new urban and rural individual savings deposits reached 40.5 billion yuan, up 26.9 billion yuan from the increase in July 1992, reversing the 1993 trend of dropping savings deposits, and lowering the net amount of money put into circulation by banks in relation to the same period in 1992.

This shows that current economic operations are seeing positive changes, with the economic order beginning to improve, the impact of the bubble economy easing, individual mindset stabilizing, and purchasing behavior

becoming more rational, which will play an important role in the sustained, rapid, and healthy operation of the national economy.

But as reform and legal institutions are lagging behind development, in addition to the stronger macroeconomic regulation and control measures having been in effect for just a short time, some areas lack understanding and resolution, still being short of fully implementing in their work the Central Committee measures, so that substantial results will still take time. The positive effects to be seen now are still initial and superficial, while more glaring problems still exist, which can be seen mostly in the following areas: In July, while state-unit fixed assets investment reached 60.8 billion yuan, down 2.4 points from June, it was still up 71.3 percent from July 1992, meaning that the problem of an excessive fixed assets investment scale remains essentially unsolved. The cost of living for employees in the 35 large- and medium-sized cities is still increasing considerably and with powerful momentum, with particular price rises for grain, building materials, fuels, and services. While domestic revenues are up considerably, the improvement is due mainly to the smooth sale of treasury bills, excluding which factor they are actually down about 8.2 percent, meaning that national finances are still very tight. The tightening of credit has generally eaten up enterprise funds, sharpening the mutual arrears phenomenon, with net accounts-receivable in July for budgeted industrial enterprises throughout China reaching a high of 173.4 billion yuan, up 24.8 billion yuan from the same period in 1992. It is thus obvious that a very difficult macroeconomic regulation and control task remains, meaning that the future priority should be placed on making efforts to combine stopgap measures with a permanent solution. In particular, the following five areas need controlled:

1. The regulation and control dynamic needs to be correct. This means the right amount of economic cooling down, along with preserving the initiative of all areas to develop well and quickly. Based on 1993's first half realities and second half projections, we should set the following macroeconomic regulation and control quantitative goals. The economic growth rate for the year should be kept below 12 percent, price rises should be kept at 11-12 percent, overall fixed assets investment should be kept under 1 trillion yuan, and state bank loans for the year should be kept at about 420 billion yuan, in order to keep the gap between overall supply and demand at approximately 5 percent.

2. Regulation and control measures need to be diversified. We need to take mostly economic and legal steps, supplemented by the necessary executive ones, in order to achieve comprehensive improvement under a "three-in-one umbrella."

The key to economic means is controlling well the two overall valves of money supply and credit, by rationally adjusting our credit structure, in order to achieve the

goals of controlling the excessive growth of overall demand, optimizing the structure, and preventing severe inflation.

Legal means will require emphasizing the drawing up of pertinent laws, along with strictly enforcing and rectifying our economic order. We now need to stop up loopholes in areas, such as embezzlement and bribetaking, manipulation of power for personal ends and extortion, the exchange of power for money, tax evasion, and smuggling, in order to eliminate corruption.

And executive means will be needed to solve mainly the problem of chaos in the economic order created by administrative actions.

3. Regulation and control measures need to be combined with reform and opening. We need to conscientiously ensure that all regulation and control steps help to promote the gradual establishment of a socialist market-economy system, as well as being effectively dovetailed with the international economy. While controlling the excessive growth of overall demand, we need to speed up our pace of macroeconomic reform in areas, such as finance, taxation, and investment, by guiding the initiative of all parties to intensified reform and expanded opening, in order to effectively use the international market and international resources for regulation to achieve stable economic development. Our financial reform orientation is to gradually establish a central banking system under State Council leadership that independently exercises a uniform monetary policy, to set up a financial organization system under central bank leadership of mostly national policy banks and state-owned commercial banks coexisting with diversified financial institutions, and to build a uniform, efficient, and orderly money-market system. Investment reform needs to be coordinated with financial reform, by establishing an investment financing system that helps to rationally control overall fixed assets investment, optimize the investment structure, and raise investment efficiency, in order to achieve self-restraint forces and risk liability for major investors with uniform rights, responsibilities, and interests. We also need to accelerate our tax-system reform, in order to strengthen the impact of revenue and taxation measures in macroeconomic regulation and control.

4. Regulation and control objectives need to be matched with media guidance. We need to vigorously publicize that fact that the stronger macroeconomic regulation and control is not an overall tightening, in order to prevent unnecessary domestic and foreign shocks. Through media guidance and policy adjustment, we need to achieve good guidance in the following five areas: a) We need to guide the economic development initiative and investment priorities of all areas to a faster development of infrastructures and basic industries. b) We need to guide the initiative of all to the development of markets, particularly domestic ones. c) We need to guide the initiative of all to developing new applied technology

and new industries, in order to convert S&T achievements into practical productive forces. d) We need to guide the initiative of all to attention to converting the industrial structure and improving economic development quality. e) We need to guide the initiative of all to intensified reform and stronger control.

5. Our regulation and control orientation needs to be focused on differential treatment instead of "indiscriminate application." a) In this adjustment, we need to give conscientious primacy to optimization of structure, by making great efforts to improve weak links, such as transportation, energy, and irrigation and water conservancy. b) While moderately tightening credit, we need to support efficient enterprise production, export earnings, priority construction, and purchasing funds for farm and sideline products, particularly not tightening down too hard on the working capital needed by enterprises for normal production operations. c) We need to provide the appropriate support to our central and western regions, so that they can maintain a stable growth of production and construction, in order to keep from impacting backward areas too much. d) We need to strive to heat up our agriculture, by conscientiously implementing all measures to reinforce agriculture, in order to lower 1993's decreased output of staple farm products, such as grain and cotton, ensure that peasant cash income grows steadily, and promote rural market prosperity, while continuing on with rural disaster relief and poverty prevention. e) We need to establish a sound social security system for low-income urban residents, and strive to solve livelihood problems, in order to maintain social stability.

#### Demand for Consumer Goods Slows

94CE0008A Beijing JINRONG SHIBAO in Chinese  
22 Sep 93 p 2

[Article by Tong Mao (4547 6319): "Macroeconomic Regulation and Control Is Taking Effect, Slowing the Growth Trend of Consumer Markets"]

[Text] In August, the steady implementation of various state macroeconomic regulation and control measures produced a further impact on domestic consumer goods markets, continuing to slow the accelerated growth momentum of consumer goods markets, and cooling down overheated demand, which could be seen mainly in the following areas:

1. Market growth rates slowed somewhat. In August, social commodity retail sales turnover reached 107.1 billion yuan, up 23.9 percent from August 1992 but, on the heels of growth in July having been down 1.9 points from June, growth in August was down another 2.6 points from July. This rate approximated the 23.2 percent growth for the same period in light industry output value.

2. Overheated group consumption cooled down somewhat. In August, after the State Council had issued a circular on strictly controlling the excessive growth of

government spending and social-group purchasing power, the overheated growth momentum of group consumption was checked somewhat. In August, while social-group retail consumer goods sales turnover reached 11 billion yuan, up 23.8 percent from August 1992, its growth rate was down 6.4 points from July, or lower than the average growth rate of 6-7 points for the first seven months of 1993. This gave August the lowest monthly growth rate except for January, as well as making August the first month in 1993 when social-group retail consumer goods sales grew less than individual retail consumer goods sales, with the equal growth of both in July changing to a 4-point gap in August.

3. The household appliances market cooled down somewhat. After several months of brisk sales in the household appliances market had begun to cool down in July, sales continued to decline in August. While prices dropped, sales have also dropped monthly, showing the return of a consumer mindset of buying when prices are rising instead of when they are falling. In August, comparing the sales turnover of eight key household appliances in social commerce to August 1992, only three grew, with washing machines, tape recorders, and color TV sales up 24.5 percent, 17.8 percent, and 9 percent, respectively, over August 1992, but down 29, 11, and 35 points respectively, from July 1993, and VCRs, refrigerators, and electric fan sales down 23.7 percent, 1.3 percent, and 35.4 percent, respectively, from August 1992, and down 24, 21, and 44 points, respectively, from July 1993. In addition, gold jewelry prices dropped sharply, with sales clearly down.

4. The growth gap between urban and rural markets shrank somewhat. The state's greater attention to agricultural production in 1993 has speeded up farm and sideline product purchasing, with better fund payment, higher peasant purchasing power, and increased impulse demand speeding up rural market growth somewhat. In August, retail consumer goods sales throughout China at the county level and below reached 39.8 billion yuan, up 22.6 percent from August 1992, and up 5.7 points from the previous seven months, shrinking the growth gap with urban-market retail consumer goods sales from 13.1 points in July to 8.3 points.

5. Individual consumer behavior normalized. Impacted by the increasing success of stronger state control of the financial order and the rise in the RMB foreign exchange quotation value, individual fear of inflation has gradually dissolved, with a wait-and-see attitude and choosy purchasing replacing the consumer behavior of purchasing as value-insurance. With higher interest rates and improved financial order, individual savings deposits are maintaining a strong growth momentum. In August, new urban and rural individual savings deposits reached 36.2 billion yuan, up 25.5 billion yuan from their growth for August 1992.

During the third quarter in July and August, while domestic consumer goods markets generally maintained a normal state of operation of brisk buying and selling



with prosperity and growth, gaps among various regions and all economic categories remained quite evident. 1) The imbalanced growth of regional markets sharpened somewhat. In August, certain coastal zones saw social-commodity retail sales growth rates over 30 percent, such as the provinces and municipalities of Hainan, Fujian, Guangdong, and Shanghai with respective growth of 36 percent, 35.7 percent, 34.1 percent, and 31.4 percent, while some inland-region markets remained flat, such as Ningxia, Guizhou, and Shaanxi with respective growth of 8.9 percent, 9.3 percent, and 12.5 percent, and not much real growth excluding inflation. 2) The gap in retail sales growth among commodities in various economic categories continued to widen. In August, retail sales by joint ventures, the self employed, and peasants to nonagricultural residents continued to maintain high growth rates, up from August 1992 respectively 52.1 percent, 44.7 percent, and 34.9 percent, while retail sales of state-owned and collective-economy commodities grew respectively only 14.8 percent and 16 percent. 3) Agricultural capital goods markets remained soft, with August retail sales of agricultural capital goods at 11.1 billion yuan, up only 0.6 percent from August 1992, or negative growth excluding inflation.

### Heavy Taxation Hinders Enterprise Development

93CE0842B Beijing JINGJI GUANLI [ECONOMIC MANAGEMENT] in Chinese No 8, 5 Aug 93 p 36

[Article by Capital Iron and Steel Complex Reform and Development Research Institute: "The Existing Fiscal System and Double Taxation Policies Remain the Main Impediments to Enterprise Vitality"]

[Text] State-owned industrial concerns continue to have difficulty moving ahead, and they face numerous difficulties in the transformation of their mechanisms. The main reason may be found in first the slowness of change in government functions, and second double taxation policies, which keep state-owned enterprises in a vicious cycle.

The main criterion for judging the economic situation is economic returns. Statistics show that the economic returns of state-owned industrial concerns within budget have steadily declined since 1989. They reached the bottom of a trough during the first quarter of 1992 when 37.1 percent of enterprises showed losses, the profit rate on funds was only 1 percent, and profits paid the state were a negative value. An upturn occurred during the second quarter, but as of the end of the year enterprises had still not climbed out of the trough. Despite a 48.7 percent increase in profits, a rate of increase far higher than for profits and taxes, the profit rate on funds as of the end of the year was still only 2.3 percent, just exceeding the 1991 amount. Actual profits were only 34.17 billion yuan, less than half the 1988 figure. One-fourth of enterprises showed losses. Enterprises' net retained profits totaled 16 billion yuan, 10 percent of the profits realized in 1992, and lower than the level at the

beginning of reform in 1980. Per capita annual retained profits were 430 yuan, making it difficult for enterprises to maintain basic welfare and price subsidies, and medical care expenses. Now enterprises must themselves raise all of their working capital and technical transformation loans. Their liabilities amount to 600 billion yuan, and their bank interest amounts to tens of billion yuan, several times their retained profits. Working for public finance and the banks, enterprises cannot eke out a living. Most state-owned enterprises are struggling to survive and are shrinking. People are generally worried about the public ownership system.

Why can't state-owned industrial enterprises put their financial house in order? We believe the main impediments is the fiscal system and the double taxation policy, which kills the goose that lays the golden eggs. According to a 1992 fiscal bulletin, the tax rate on sales of industrial enterprises under ownership of the whole people within budget reached 10 percent, a rate that was almost double that of township and town enterprises and the three kinds of partially or wholly foreign-owned enterprises, making it the highest in the world. After taxes, profits had to be paid to the state and into the two funds, and enterprises also had heavy social burdens to bear. It is now very clear that unless the turnover tax rate is lowered, state-owned enterprises will find it difficult to put their financial house in order.

In 1992, fiscal revenues nationwide increased by 23.47 billion yuan over 1991. The amount of increase deriving from the payment of profits and taxes by industrial enterprises under ownership of the whole people within budget amounted to 12.3 billion yuan. This plus enterprise payments into the "two funds" accounted for 55 percent of the total fiscal revenue increase for the year. GNP created by industrial enterprises owned by the whole people within budget was no more than 20 percent, but these enterprises still shouldered 55 percent of the revenue increase. This amounts to a continuation of the killing of the goose that lays the golden eggs. This unfair fiscal policy makes it difficult for state-owned industries to put their financial houses in order.

In explaining the slow growth of fiscal revenues, however, the reason that government financial departments offer is that "enterprises economic returns have taken a turn for the better, but they are not reflected in public finance. Take industrial enterprises within budget, for example, which realized profits of 32.28 billion between January and November, but paid profits to the state of only 199 million yuan, 4.38 billion yuan less than during the same period in the previous year." This statement purposely omits the 1992 collection of a turnover tax amounting to 133.05 billion yuan, which was 15 billion yuan more than during the previous year. To say only that profit distribution amounts to nothing, or saying that "less public revenues have been collected" actually conceals the true distribution relationship between the state and enterprises.

Promotion of the separation of taxes and profits under these grim circumstances means that the more a small number of enterprises having good returns make a separation the more they suffer, while the pressures and motivation of the majority of enterprises whose profits are poor are reduced. Pilot projects show that the pairing of the stock share system with the separation of taxes and profits does not improve the pattern of distribution between the state and enterprises. Therefore, maintenance and perfection of the contracting system should not be touched.

The biggest difficulty that the contracting system faces today is excessive tax burdens. However, the greatest strength of the contracting system is that it holds fast to base figures, permitting contractors to retain excess receipts. While ensuring an increase in fiscal revenues, it tilts increases in favor of enterprises. After several years of readjustment, enterprises can take a breather to follow a course for their own development. As for the standardization issue, attention must go first to productivity standards. Right now, the invigoration of state-owned enterprises is the overriding issue. Standardized policies can only derive from effective reform practice.

## FINANCE, BANKING

### Survey of RMB Circulation in Hong Kong

93CE0859A Beijing JINRONG SHIBAO in Chinese  
24 Aug 93 p 3

[Text] There are currently no objective statistics or data with which to calculate the amount of renminbi cash circulating in Hong Kong and Macao and outside the borders. We have no choice but to compare and corroborate various figures to help clarify typical data.

According to a report in the 22 May 1993 issue of Hong Kong's FAR EAST DAILY, the circulation volume of RMB cash in Hong Kong is around 10 - 20 million yuan, and each month about 2 billion yuan of RMB enters Hong Kong.

According to the East Asia Bank, more than 2.2 billion RMB cash enters Hong Kong each month.

The Hong Kong and Shanghai Banking Corporation estimates that 9.6 billion yuan of RMB comes in each year, which means that 800 million yuan of RMB goes out.

The foreign exchange branch office of People's Bank in Shenzhen City estimates that 48 million people crossed the border in 1992, more than 12 billion yuan of RMB cash goes out each year (assuming that of the 48 million people leaving or entering, half are leaving, and each one takes an average of 5,000 yuan, and an estimated 1 billion yuan of RMB goes out each month).

According to calculations by Shenzhen's Luohu port customs office, about 100,000 people pass through every day; about 50,000 leave from the port of Luohu, carrying

about 100 million yuan of RMB with them. A total of 120 million yuan is taken out each day from all of the ports in the Shenzhen region, and each month about 4 billion RMB is taken out, which basically accords with average expectations of about 2 billion taken out monthly.

The above estimates conform to the estimate by the People's Bank in the Zhuhai Special Economic Zone that since it has been permitted to take RMB in and out, about 200 million yuan of RMB has circulated in the Macao region. A total of 15,000 people cross the border every day, 7,500 of whom are leaving; each month, about 400 million yuan of RMB is taken out, of which 200 million yuan is taken out at Macao.

Regarding RMB being taken over the borders in the future, we believe that once the amount permitted to cross the borders has been exceeded, even though it leads to a corresponding increase in cash circulation, the increase in cash circulation for Shenzhen and Zhuhai is not great. The yearly amount of influx and outflow may correspond to the expansion of contacts; there has been some increase in economic links, but this will not lead to a huge increase in the amount of RMB in Hong Kong and Macao, for the following reasons:

First, the time period during which RMB circulation is permitted is not very long, and accumulation requires more time. From 1 March through June, when RMB is permitted to cross the border, is less than 120 days. Based on the previous estimates, the amount of RMB taken out at Hong Kong and Macao is about 2.1 to 2.2 billion yuan—only a small fraction of the cash in circulation in Shenzhen and Zhuhai. Expanding the scope of currency circulation and the settling of RMB beyond the borders require more time.

At the same time, we understand that while RMB is taken out in large quantities, it will also be brought in on a large scale. In late May, the Zhuhai Gongbei customs office discovered 16 violations involving RMB bringing it into the country, 14 of them cases of outflow. Perhaps this example shows that if net outflow exceeds the influx from 1 March to early May, then beginning in late May influx may exceed the amount being taken across the border. Clearly, RMB that enters Hong Kong and Macao through various channels will flow back into the country after a certain period of time. Incoming and outgoing offset each other, and very little RMB is stationary.

Second, taking the long view, whether or not the RMB can be supported by residents and enterprises outside our borders does not depend solely on our liberalizing policies (which, of course, get a lot of attention), but also on the RMB's international reputation, and the assessment by outside enterprises and residents of the RMB's stability and the risks of using it in business. In reality, the RMB is not yet a freely convertible currency, and is not generally recognized or widely used internationally. Since the reforms and opening up, China has experienced inflation several times, with the RMB being



devalued. In particular, during the most recent times, the RMB was devalued overseas by 30 percent in a short period of less than a year, then sprang back by 23 percent. A currency that rises and falls so dramatically, with a continuous record of devaluation and fluctuations cannot be eagerly supported by outside people. Currently, some banks, companies and enterprises in Hong Kong and Macao are willing to be in the exchange business because the RMB is a soft currency, and it is a soft currency without a foreign exchange market. Thus, the buy-sell differential can be expanded somewhat, and by avoiding the risks associated with exchange rates as much as possible, they can do a profitable business.

Currently, even though there are some financial institutions that will exchange RMB, there are few, and there are great exchange rate hazards associated with the "self-absorbing, self-balancing" method. As a result, the financial institutions in Hong Kong and Macao (including exchange institutions) will not take in and keep large amounts of RMB in the near term unless we make certain changes in policy.

Fourth, the independent (black market) exchange rate of Hong Kong dollars and RMB is different domestically and in the Hong Kong and Macao region. This will lead to endless currency speculation, which will in turn lead to frequent shifts in incoming and outgoing RMB. RMB cannot be prevented from circulating outside for an extended period; when the independent exchange rate of RMB for Hong Kong dollars in Hong Kong and Macao falls below the domestic exchange rate (for example, if in Hong Kong and Macao 100 Hong Kong dollars converts to 130 yuan of RMB, and domestically 100 Hong Kong dollars converts to 135 yuan of RMB), more RMB will go out. Conversely, when the exchange rate in Hong Kong and Macao is higher than the domestic rate (for example, if in Hong Kong and Macao 100 Hong Kong dollars converts to 140 yuan of RMB, and domestically 100 Hong Kong dollars converts to 135 yuan of RMB), more RMB will come in. With the aforementioned fixed amount of allowable RMB crossing the border at the Gongbei customs office in the Zhuhai special economic zone between 1 March and mid-May, the independent Macao exchange rate was always lower than the domestic exchange rate. More RMB went out at Macao, and after mid-May, the independent exchange rate at Macao was higher than the domestic rate by a few fen, and more RMB went to Macao. The reason is that speculators made a profit by taking advantage of the exchange rate differential. Of course, only if the RMB has a stable rate can these fluctuations in influx and outflow be reduced.

#### **Types of People Taking RMB Across the Border at Hong Kong and Macao**

Based on the situation described by the Luohu port customs office in the Shenzhen Special Economic Zone and the Gongbei customs office in the Zhuhai Special Economic Zone, people who take RMB across the border at Hong Kong and Macao fall into four main categories:

1) Tourists from all over the country, including those particular provinces (regions). Each day about 200,000 tourists (Shenzhen, Hong Kong and domestic) cross the border at Luohu port and Gongbei in Zhuhai. Records show that people of this type take out 500 to 6,000 yuan of RMB across the border and spend between about 3,000 and 4,000 yuan.

2) People leaving on official business. The customs service usually does not keep track of such people and only occasionally does spot checks, so it is hard to get statistics. They generally take out little or no RMB.

3) Tourists and business people coming from abroad and from Hong Kong and Macao. Some of these people, to save time and for reasons of convenience, exchange Hong Kong dollars or other foreign currency for RMB while they are in Hong Kong and Macao, which they use in China for travel, work or personal expenses. They generally do not bring much.

4) Speculators. There are not many of this type, but the amount of RMB they carry is quite large, and the amount smuggled in is about 60 percent. They often make a profit from the differential between RMB, H.K.dollars, NT, U.S. dollars, yen and marks.

The first two of the four types mentioned above account for about 20 percent of the RMB taken out, the third type accounts for 20 - 30 percent, and the fourth type accounts for 50 - 60 percent.

Spot checking at the Gongbei customs office in Zhuhai revealed that in May there were two cases of travelers taking RMB out illegally. One case involved a traveler from Canton bringing out 12,000 yuan of RMB at one time. In June, a traveler from Jiangxi took out 14,000 yuan of RMB. According to the Agricultural Bank in Wanzhi, Zhuhai, when RMB was first permitted to be taken across the border, some smugglers took hundreds of thousands of yuan of RMB at a time by boat to Macao, and did so a number of times. The smugglers' purpose was primarily speculation or illegal purchase of goods.

Spot checks on incoming people also revealed amounts of RMB over the limit being brought in. In late May, the Gongbei customs office in Zhuhai discovered 14 cases, 11 of them involving more than 20,000 yuan. Spot checks uncovered three cases in June, one involving more than 30,000 yuan, one involving 140,000 yuan and one involving 14,000 yuan.

#### **The Thriving Exchange Business in the Hong Kong and Macao Region**

One significant business that has emerged alongside the active influx and outflow of RMB across the border is Hong Kong and Macao's RMB exchange business.

Before the announcement this year that RMB would be allowed to be taken across the border, Hong Kong and Macao's RMB exchange business already existed. But after 1 March, it developed dramatically. This happened when a number of banks and companies opened up their

operational demand, which was also a necessary precondition for RMB moving across the border. In other words, the development of the RMB exchange business outside the borders determined the scope of the Hong Kong and Macao region's ability to absorb RMB cash. Currently, those engaged in the RMB exchange business in Hong Kong are primarily licensed banks, finance companies, and the exchange offices of ordinary companies or specialized exchange offices, etc.

1. Exchange at licensed banks. In early March of this year, before the announcement, Hong Kong's Dao Heng Bank was the first to enter the RMB exchange business. On 8 March, the Hong Kong Central Bank Consortium's Bao Sheng Bank also entered the RMB exchange business. After that, the East Asia Bank, Yong Heng Bank and Yong Lu Bank also entered the RMB exchange business in succession. Among them the Bao Heng Bank's did the largest exchange business. Their daily exchange volume was about 2 million yuan of RMB. Currently, Bao Sheng Bank's 12 branches in Hong Kong and East Asia Bank's 14 branches handle this business. The licensed banks engaged in RMB exchange mostly have restrictions on amounts. Generally, each person is limited to 6,000 yuan of RMB each time. The exchange rate is set with reference to the domestic RMB valuation and the Hong Kong black market rate.

2. Exchange at financial companies. Hong Kong's Exchange Ltd Company is relatively influential. In late February of this year they entered the RMB exchange business. Currently, they do about 500,000 yuan of RMB cash exchange business each day. Besides exchanging cash, they also have connections with a number of financial organizations in the Zhuhai Delta for bank deposit exchange. Their basic method is that the exchange company pays foreign exchange to the domestic financial organization, selling the foreign exchange to these financial organizations according to the domestic individual foreign exchange value. Then, the domestic financial organization pays RMB to a domestic customer designated by the Hong Kong customer.

3. Exchange at exchange offices. A number of companies, many stores, shops and restaurants have RMB exchange offices that do exchanges. Some base their exchange rates on bank list prices, some set their own rates. To attract customers, some exchange offices have more favorable rates than banks. In contrast to banks, exchange offices do not have strict limits on amounts.

The RMB exchange business in Macao is much the same as that in Hong Kong. Besides banks such as the Xiang Heng Sheng Bank, commercial organizations such as the "Yunachang Trade Bank" have also engaged in the RMB exchange business. In addition, gold and silver jewelry shops were early takers of RMB. Recently, some large restaurants have begun taking RMB, and even large street-side "carts" (snack shops) accept RMB.

The main reasons for the dramatic development of the RMB exchange business in Hong Kong are:

1. Because it became legal to take limited amounts of RMB across the border, the amount entering Hong Kong and Macao increased, and objectively an exchange business was needed.

2. Domestic trade ties with Hong Kong and Macao, particularly closer and more frequent contacts between people, require RMB, and increases demand for RMB in Hong Kong and Macao.

3. There are great benefits to exchanging RMB. Currently in Hong Kong, 100 yuan of RMB has reached an exchange price of HK 4-5 dollars, far exceeding the differential of other independently traded currencies. If exchanges are made frequently, the turnaround profit is quite considerable. It appears that the RMB is already second only to the Hong Kong dollar as a dynamic circulating currency.

4. The Hong Kong government has rather relaxed supervision over exchange of foreign currencies. A company has only to apply to the Hong Kong government for an exchange license to engage in the foreign currency exchange business. This has also promoted the emergence and development of the RMB exchange business in Hong Kong.

#### **Treasury Bond Sales Require 'Negotiations'**

94CE0026A Beijing ZHONGGUO XINXI BAO  
in Chinese 18 Aug 93 p 3

[Article by Special Correspondent Ma Jianhua: "Treasury Bonds, Why Negotiations Are Necessary In Selling You"]

[Text] People call treasury bonds "gilt-edged bonds." Treasury bonds were "bullish" in 1991 and 1992. However, after 1993, treasury bonds, which had a history of 13 years, were left out in the cold just like "the daughter of the emperor worrying about not being able to get married off." Afterwards, treasury bonds took a turn for the better after the state adopted several measures to promote the sale of such bonds. By 15 July, the last day set by the state to buy bonds, the treasury bonds were basically sold out. Before, negotiations were not needed to sell the "gilt-edged bonds." Why is there now a need to negotiate with investors in selling such bonds?

#### **Why Was Issuance of Treasury Bonds Held Back During First Half of 1993**

According to information from the State Statistics Bureau, the individual financial assets of residents in the country have increased each year in the past several years. By the end of 1992, they had reached 1,800 billion yuan, of which savings of urban and rural residents exceeded 1,100 billion yuan, cash on hand totaled 350 billion yuan and investments in bonds and stocks and other collective investments approached 300 billion

yuan. Normally 30 billion yuan treasury bonds only accounted for 10 percent of the total individual assets. The sale of such bonds should be an easy job without much effort. So, whose fault is it when the sale of such bonds becomes sluggish?

According to an analysis conducted by experts, the focus of the problem is the interest rate. The fervor in buying treasury bonds in the past two years took place at a time when the national economy was going through a period of economic improvement and rectification. During that time, there was a credit crunch, while bank deposits were on the increase, and people were looking for ways to invest their money. Meanwhile, there were not many stocks, bonds and debentures. Being the only commodity on the financial market, treasury bonds naturally found favor in investors' eyes. However, right now the securities market is rapidly expanding. The number of stocks, debentures, local bonds and other financial commodities have sharply increased. People are well aware of their investment opportunities. Following the economic growth, funds are increasingly in short supply. Particularly when the interest rates on the financial market have already reached 15 to 30 percent, the interest rate for treasury bonds has not been raised and adjusted on time. The interest rate for treasury bonds remains at the 1991 and 1992 level (10 percent, 11 percent). Naturally people have lost interest in treasury bonds.

Doubtless to say, the two annual interest rates of 10 percent and 12.52 percent as well as 11 percent and 14.6 percent for 1993 treasury bonds are obviously lower than the national urban inflation rate (15 percent to 20 percent and even as high as 40 percent in Shenzhen). Thus, saving deposits of the residents and idle funds of individuals which would originally be used to buy treasury bonds flow to the stock market where interest rates are higher, the turnover period is shorter, and the increase of the investment in value is faster. They are used to buy bonds which pay higher interests and other fast moving commodities and residential houses.

In addition, the annual earnings ratio of local bonds and short-term loan certificates issued by loan companies are as high as 15 percent to 20 percent. The annual interest rate offered by individual enterprises for fund raising is much higher than that for treasury bonds, attracting a large amount of idle funds. According to incomplete statistics compiled by the National Debt Department under the Ministry of Finance, nearly 30 types of local bonds were being sold in various localities up to 16 March 1993. Bonds are matured earlier and their dividends are higher as compared with this year's treasury bonds.

During the first half of 1993, investors notably diversified their investments with the devaluation of the Renminbi and the expansion of the stock market. A large amount of investments are made in purchasing stocks, foreign exchange, gold, jewelry and expensive electric appliances. All this affects the sales of the treasury bonds.

#### Administrative Apportion Can Only Satisfy Pressing Need

In view of the sluggish sales of 1993 treasury bonds, the relevant department of the state has weighed the pros and cons, and resolutely decided to raise the interest rate of the treasury bonds and extend the deadline for bond subscription by two months. Can this practice of raising the interest rate and extending the deadline for subscription extricate the treasury bonds from their predicament? It is reported that raising the interest rate will not help fulfill the plan of selling all the treasury bonds. It is estimated that such a measure can only sell about 10 billion yuan worth of such bonds.

How would the remaining 15 billion yuan worth of treasury bonds be sold? In view of the serious situation, the State Council approved, in mid-May, five measures proposed by the Ministry of Finance on the issuance of 1993 Treasury Bonds. Such measures are somewhat administrative in nature, requiring state enterprises and institutions to buy 3 billion yuan worth of treasury bonds with their retirement and insurance funds, and mobilizing 14 million individually operated industrial and commercial establishments to buy 8.4 billion yuan worth of treasury bonds (600 yuan worth of treasury bonds for each establishment). The measures temporarily put off paying back the six billion yuan owed to various financial institutions for the treasury bonds that have matured this year; asks 50 million workers of the collectively operated enterprises to buy 100 yuan worth of treasury bonds each person; and calls on all organizations selling and buying stocks and shares under the STAQ [no expansion given] system to subscribe for one billion yuan worth of treasury bonds.

Another measure is even more intimidating. Whoever fails to subscribe for the amount of treasury bonds apportioned will not be permitted to put their own stock on the market this year. Nor can they issue any debentures.

Since the measures were put into effect, various localities have adopted "all kinds of tactics" and a wide varieties of methods to sell the "injured" "gilt-edged bonds." Such tactics have included:

—"Shorten the maturity period and raise the interest rate." The Industrial and Commercial Bank of Hangzhou has converted three-year and five-year treasury bonds into one-year bonds with an annual interest rate of 10 percent, while the Construction Bank of Hangzhou has converted regular treasury bonds into three-month, six-month and one-year bonds.

—"Sell treasury bonds at a discount rate." Some banks in Shanghai have sold 100 yuan treasury bonds at 99 yuan while paying interest at the same rate.

—"Play lottery tickets, while insuring repayment of the capital." A certain county in Zhejiang has turned all the interests of the treasury bonds into a bonus with which it



issues "lottery tickets." Naturally repayments will be made to investors for their capital, when the treasury bonds have matured.

—"Sell treasury bonds with prizes." Whoever has bought the three-year treasury bonds at the Industrial and Commercial Bank of Hangzhou has been given a lottery ticket good for one game. Obviously the bank pays the prize.

—"Turn in the old for the new." The Hangzhou City Treasury Bonds Service Department has allowed residents to turn in their 1990 treasury bonds which have not matured for the purchase of 1993 treasury bonds. After this measure was adopted, some 200,000 yuan worth of treasury bonds were sold within two days. Only slightly over 50,000 yuan worth of treasury bonds were sold in the two and half months before.

—Free stock subscription coupon. The Zhejiang Securities Company has said that whoever buys 100 yuan worth of treasury bonds will get a free 1993 stock subscription coupon. The more treasury bonds one buys, the more coupons he or she will get. Immediately, a high tide of subscription for treasury bonds has been whipped up.

In order to sell more treasury bonds this year, the Ministry of Finance has really tried one thousand and one ways. In order to avoid clashes between treasury bonds and the various types of bonds and debentures floated by all enterprises, the ministry has combined the two issues of bonds in 1992 into one, and moved up the date from 1 April to 1 March. Those who subscribe for the five-year treasury bonds may cash the bonds after three years at the three-year interest rate, or they may cash their bonds after five years. At the request of various departments which are selling treasury bonds, some 500 yuan and 1000 yuan bonds of larger denominations have been allowed to be exchanged for bonds of 100 yuan denomination. Special charter planes have been used to deliver those bonds of smaller denominations on an emergency basis. Meanwhile, commissions have been greatly raised for selling treasury bonds from 1.45 percent in the past to 2 percent this year. It has also been promised that security companies that actively subscribe to treasury bonds may be named as advanced units in performing "good deeds." The Ministry of Finance has really given a great deal of thought to this matter.

Nevertheless, people do not seem to appreciate the efforts made by the ministry. When subscribing for treasury bonds, many units, with the exception of a handful of individual units, have given workers "labor insurance coupons" which cost the units nothing and "welfare bonds" which they have bought at a discount rate together with the treasury bonds. Some people have sarcastically said: "Little boss of the enterprise makes capital investment, while big boss of the state pays interest." They also have said: "The state gives a dinner party, while the unit pays the bill." The treasury bonds have really become the "gilt-edged bonds."

### **Lose No Time in Reforming Treasury Bonds**

The issuance of 1993 treasury bonds has finally concluded. As of mid-July, 88 percent of the money from treasury bonds had entered the state treasury. The leaders of the departments concerned have at last let out a sigh of relief. Many people are also thinking: "What should we do next year?" Some experts point out that relying on efforts to raise the interest rate alone without changing the operating mechanism in floating treasury bonds only brings about a temporary solution. It will not effect a permanent cure. After all, it is not a long-range plan. We should make use of the golden opportunity when treasury bonds are still selling well to change the mechanism in selling such bonds.

As the term suggests, treasury bonds are bonds issued by the state for adjusting the money supply of the state treasury. However, the treasury bonds in China have become the construction bonds of the state. In other words, they are a source of state revenue in a disguised form, which plays a more and more significant role in China's economic life. For the past 13 years, the treasury bonds had gone through twists and turns and several reforms. However, even now they themselves and the operating mechanism in issuing them are still imbued with a strong flavor of planned economy. Meanwhile, the administrative methods in floating treasury bonds under the traditional system of planned economy have appeared even weaker. To act in accordance with the laws of the market economy and completely change the operating mechanism in issuing treasury bonds tallies with the general trend of the times. We need to take immediate action in this connection. Authoritative sources point out that right now the governments in various countries throughout the world are issuing treasury bonds. Western nations benefit a great deal from their fine market structure and relevant operating mechanism. The market of their government bonds (called the gilt-edged bond market) is well known for its impressive varieties, perfect system, advanced techniques and well-defined laws and regulations. Therefore, each government is able to orderly raise funds with a highly effective operating mechanism. On the other hand, there are obvious disadvantages in the operating mechanism for floating treasury bonds in China. The market for treasury bonds is weak, and the form in floating such bonds is unitary. Investors have little options, while the form of business transaction is backward. Except for the existing practice of selling bonds in stock over-the-counter, no other business deals such as mortgage or time discount have been carried on. Nor has forward business been established for national bonds. There are extremely few national bonds. Right now, there are only a handful of orthodox national bonds—the treasury bonds and the financial debenture with the former assuming the lion's share (30 billion yuan of treasury bonds and seven billion yuan of financial debenture). Also, both of them are not linked with the inflation rate, and the readjustment of their interest rate is slow. When the 1993 treasury bonds were floated, the relevant department failed to timely adjust the interest rate. When the interest

rate was adjusted for the first time, it was done without taking into consideration the rate of inflation.

Experts point out that national bonds are a kind of financial commodity suited to the conditions and acceptable by the investors in China. Also for a long period of time to come, national bonds such as treasury bonds will remain the main financial commodities on the securities market in China, and assume a fairly large portion of the people's financial assets. Therefore, the state must make use of the means of the socialist market economy to establish a quite large national bonds market with rational structure and clear-cut administrative levels in conformity with international practice.

It is reported that the state has already realized the pressing need and the significance in improving the market for national bonds. It will thoroughly reform the procedure in floating national bonds in 1993 and 1994. In late 1993, the Ministry of Finance has adopted two measures. The first one is to appoint the first group of 18 top-grade independent financial institutions for handling transactions of the third batch of 1993 treasury bonds (non-physical), while the second one is that the form of transactions at net price will be used in floating treasury bonds on the market. In 1994, the state, on the one hand, will sell the state treasury savings bonds (not to be listed) which will pay slightly higher interest than a bank checking account when the investor tries to cash bonds before they become mature. On the other hand, subcontracts will be signed with the top-grade independent financial institutions (regarded as wholesalers) to sell treasury bonds to individuals or other financial institutions over the counter.

## INDUSTRY

### Shandong To Develop Tertiary Industry

94CE0001A Jinan DAZHONG RIBAO in Chinese  
3 Aug 93 p 7

[Article by Zheng Guibin (6774 6311 2430), Jiang Qian (5592 6197) and Lu Donghua (4151 2639 5478): "Quicken the Pace of Developing Tertiary Industry in Shandong Province"]

[Text] Since China's opening and reform policy has been in effect, Shandong's tertiary industry has developed rather rapidly, which in turn has had a positive and invigorating effect on the development of Shandong's economy and society in general. But for various historical, economic and social reasons, Shandong's tertiary industry has lagged rather far behind when compared with development of tertiary industries in the coastal areas or interior regions or in terms of the objective requirements of economic development. This situation may be examined from several perspectives: First, the proportionately low ratio of tertiary industry. In 1992, the increased output value of the tertiary industry was 22.6 percent of the province's total output value, and compared with the output values of the primary and

secondary industries respectively, it was 5.5 percent and 26.7 percent points lower, and compared with the national average, 5 percentage points lower. Second, the low ranking of tertiary industry. At present, Shandong's tertiary industry consists mainly of traditional service trades of commercial supplies and food, while the newly emerging trades in communications, information, tourism and technical services are not yet fully developed. Third, the irrational distribution in tertiary industry. Most of Shandong's tertiary industry trades are concentrated in the major cities, and proportionately very few in the rural areas, and the trades which provide services to agriculture are particularly underdeveloped. The situation described above reflects an irrational economic system and an uncoordinated ratio among different enterprises in Shandong; if such deep-seated contradictions cannot quickly be solved, they will hamper the economic development of Shandong.

The reasons that the development of the tertiary industry in Shandong has been sluggish are numerous; the major ones are: 1) In terms of ideological understanding and theoretical guidance, the long-term emphasis on production while giving little attention to circulation and services has resulted in neglecting the productivity and commercial viability of the tertiary industry. 2) In terms of the economic operating system, the socialization and productivity of the tertiary industry have long been below-standard, and this has hampered the growth of a system which emphasizes vigorous self-development and advancement. 3) From the standpoint of regulating and managing enterprise development, the various prefectures, trades and departments, blinded by their self-interests and working to monopolize or block the others, have led to unchecked and reckless development of the tertiary industry. 4) In terms of the enterprise policy environment, there have been more restrictions on, but less support and assistance given to the tertiary industry. All of the above have had varying degrees of effect on the growth and development of the tertiary industry.

The sluggish situation in Shandong's tertiary industry must be thoroughly corrected on the basis of its current development and the requirements for overall economic development in the province. During the period covered by the Eighth Five-Year Plan and the Ninth Five-Year Plan, the tertiary industry must maintain a clearly higher growth rate than those in the primary and secondary industries, while gradually pursuing the goals of privatization, commercialization, socialization and modernization; by the year 2,000, we should reach the initial stages of establishing and perfecting the systems of socialized services and social welfare for cities and towns, of postal and telecommunications, of communication and transportation, and of a market with all the capabilities which reflect the special characteristics of Shandong. To realize such a goal will require a great deal of effort; we must fully mobilize the strength of the society with everyone striving together toward achieving that goal. In the near term, overall leadership guidance should be to plan and coordinate on the basis of striving for overall development, to adopt practicable and effective policies and

measures, to strive for breakthroughs in certain key areas, important departments and leading trades, and to conscientiously build and continuously perfect the following "three systems."

1. Accelerate the integration of developing the tertiary industry with realization of the strategic goal of Shandong's economic development, and establish and perfect an enterprise system led by the tertiary industry. To achieve a second breakthrough by 1994 by reaching the projected provincial GDP six years ahead of schedule, and a third breakthrough by the year 2000: This is the strategic goal for Shandong's economic development in the 1990s set by the provincial party committee and government. The development of the tertiary industry should support and serve this strategic goal. Concretely speaking, this means that the pace, degree, focus of investment and the direction of development in the tertiary industry should be coordinated with the strategic goal. To achieve the third breakthrough by century's end, it is necessary to firmly take hold of all enterprises, not by applying equal attention on all the enterprises but by zeroing in on certain key areas of development and potential breakthrough points. In our views, the tertiary industry can serve both as a key area as well as a breakthrough point for enterprise development; i.e., the tertiary industry, easily invigorated by the opening policy, should take the lead and bring about the overall development and opening in the primary and secondary industries, and from this gradually establish an enterprise system with a rational structure which is open to all sectors, which functions vigorously and efficiently and which possesses the special characteristic of Shandong.

2. Accelerate the integration of developing of the tertiary industry with promotion of market development in Shandong, and gradually establish and perfect a full-capability market system with a rational distribution and efficient circulation mechanism. Developing the tertiary industry and nurturing the growth of the market are mutually reinforcing tasks; by accelerating the vigorous development of the tertiary industry, we can foster the growth of the market; as the market develops, it in turn will play a guiding role in opening up new areas for the tertiary industry. At the same time, only when the tertiary industry throws itself into market competition will it provide effective services for the production of materials and the people's livelihood, and at the same time maintain its vitality and productivity. In developing the tertiary industry, we should firmly establish the concept of "large market, maximum circulation and comprehensive services," using in particular the "large market" concept as guidance. The so-called "large market" concept has at least three aspects: First, in terms of the parameters of space, the market should be a socialist unified market, not limited to or controlled by prefectures or departments, which will engage in "market segmentation." Therefore, this market will break down or do away with protectionism and monopoly of all kinds, eliminate barriers to trade, and open up to fair competition. Second, in terms of objective structure, the market should be a marketing system

which combines marketing of consumer goods with that of essential products and services. That is to say, in addition to serving as a consumer goods market, the marketing system should also provide essential services such as production materials, labor, technology, finances, housing and land management and information. Third, in terms of external form, the market should include both retail and wholesale markets, specialized and comprehensive markets, and current goods and commodity futures markets.

3. Accelerate the integration of developing the tertiary industry with raising the standard for socialized services in Shandong and improving the quality of people's livelihood, and gradually establish and perfect a relatively complete, consolidated system of socialized services for cities and towns. The scope of this type of service system is quite broad and includes mainly municipal administrative services, transportation and communications services, information services, tourism, resident services, culture, education, sports, and medical and health care. Based on the actual circumstances in Shandong, we should keep in mind the following in establishing and perfecting a consolidated system of services: 1) We should start from a foundation. Since the reform policy has been in effect, although Shandong's tertiary industry has developed considerably, some basic trades such as transportation and communications, urban public services, education, commercial and resident services are still at rather low-level beginning stages. Therefore, in developing the tertiary industry, we should start on the basis of reality and not set our sights too high. We should observe the rules of enterprise development by going from lower to higher levels and gradually progressing ahead. In developing the commercial service trades, we should aim at serving not only the five-star hotels but also the realistic consumption needs of a majority of members of society. 2) We should vigorously develop those tertiary industries which support and serve the key engineering construction projects. Shandong has already launched two advanced technological projects, one being the "Shandong in the Sea" project and the other the development of the Yellow River delta. Major large-scale enterprises such as the Qilu Steel Works, Yantai-Mitsubishi Cement Company and Jining Qianqun Penicillin Manufacturer will create greater demands for development of the tertiary industry. Developing the tertiary industry by taking advantage of the developmental thrust of such major enterprises will provide not only the support required by the key construction projects, but also very good opportunities to invigorate the growth of Shandong's tertiary industry. 3) We should give major emphasis to establishing and strengthening a consolidated system for providing socialized services in rural areas. Such a system has heretofore been given low priority, built on a simple format, with inadequate channels for providing services; these longstanding problems have affected rural economic development, and they have basically not been solved even today. Therefore, in order to serve agricultural production, it is necessary to vigorously develop information



guidance for production and supply the needed materials prior to production, to provide technical support services while production is in progress, and to supply services in storage, transport, processing and sales after production, in order to promote a unified production and marketing service; it is also necessary to concretely develop not only employment services to help peasants seek non-farm employment but also other services to help them adjust in their new trades and pursuits, all of which will serve to invigorate the overall rural economic development in Shandong.

### Shandong Reforms Textile Labor System

94CE0017B Beijing ZHONGGUO FANGZHI BAO  
in Chinese 9 Aug 93 p 2

[Article by Zi Dezheng: "Shandong's Textile Department Adopts New Measures To Reform Labor System—Reduce Labor Cost, Become More Competitive in Production"]

[Text] According to a ZHONGGUO FANGZHI BAO report, the labor-intensive textile industry has long been regarded as a "reservoir" for employment in society. However, superfluous personnel and low labor efficiency have increased labor cost and yielded low economic results. We badly need to make a breakthrough in reforming the industry. Following vigorous technical progress and changes in the way the industry operates, the textile industry has quickened its tempo in converting itself from a labor-intensive industry to both a technology and capital intensive one. As a result, reforming the labor system has become a more important and pressing task. Recently, the provincial textile department put forward reform measures aimed at achieving "high efficiency, more effective economic results and high remuneration."

The reform of the labor system in Shandong's textile industry is being carried out in the following eight aspects:

1. The number of non-productive personnel has been curtailed. Right now, administrative and service personnel account for 23 percent of the total number of staff members and workers. They will be reduced by three to five percent.

2. The work shift system will be reformed according to local conditions. With the exception of those enterprises where the system of "four shifts for three different operational procedures" may be continuously adopted to keep pace with the steady inflow of orders, other enterprises must flexibly adopt the three shift system—the day, morning and swing shifts—or reduce the number of evening shifts for different factories, workshops, work procedures and types of work in production.

3. Maintenance personnel must be reorganized by forming mixed maintenance teams or instituting a contract system for a particular piece of machinery according to actual needs in production in order to further reduce the number of maintenance personnel.

4. Labor management must be strengthened for imported equipment to meet foreign standards in terms of fixed number of staff and production quotas, labor efficiency and economic results, as early as possible.

5. Efforts must be made to rapidly turn various everyday service departments into economic entities and help them strengthen business management.

6. It is necessary to strengthen the training of workers in order to meet the requirements for reforming the labor system, and to further consolidate achievements.

7. Efforts must be made to reduce the amount of labor in production in order to cut labor costs. Various departments must further tap the latent potentialities in a big way and achieve better economic results.

8. It is essential to carry out experiments in selected cotton and woolen textile mills with better conditions, sum up their experience and rapidly propagate such advanced experiences.

These reform measures have been adopted after summing up the experience of the Dezhou Cotton Mill in reforming its labor system in recent years. This mill is highly efficient in production. In this mill, the labor used to process one ton of yarn is 34.98 percent lower, its labor cost 14.87 less, and workers' wage income 30.93 percent higher than the provincial average figures. The "high efficiency, more effective economic results and high remuneration" supplement and restrain each other, and furnish valuable experience in reforming the labor system in the textile industry.

The key to reforming the labor system is to make arrangements for superfluous personnel. There are 20 percent superfluous personnel in the entire textile industry in Shandong, totaling about 120,000 people. Finding proper places for these people and putting into play their roles will not only cut labor costs, but will help solve one of the problems in reforming the labor system. The authorities in charge of the reform program have called for efforts to give priority to building the textile industry, while developing a diversified economy. Enterprises in the industry must find ways to make full use of superfluous personnel, and exercise strict control over filling open vacancies left by retirees or those who resign on their own. As long as there are superfluous personnel, they must try to fill less or no vacancies and strictly control the hiring of new workers.

## FOREIGN TRADE, INVESTMENT

### Subscribers Access UN Technology Information Network

93CE0879B Beijing GUOJI SHANGBAO in Chinese  
7 Aug 93 p 1

[Article by Liu Yuhui (0491 3558 6540): "TIPS Allows Chinese Subscribers To Access World Information Network"]

[Text] The Chinese section of the UN Technology Information Promotion System [TIPS] has been actively serving the domestic enterprises. In recent years, because of its hard work, Chinese subscribers to the system have completed transactions with foreign businesses worth nearly \$60 million.

TIPS utilizes that system's intermediary role to help China's many new technologies, new arts and crafts, new products and new equipment gain access to the international markets and attract many foreign businesses to come to China to set up joint ventures. At the same time, through that system, many domestic trades and businesses can better understand foreign advanced technologies and demands for equipment and products, which helps them bring in or develop those items. They provide suitable targets for the Chinese enterprises' and institutions' technological transfers and product and equipment exports.

It is learned that TIPS's Chinese section mainly uses computers to translate the technical and trade information the headquarters have obtained into Chinese and then classify the Chinese-English bilingual information and send them to the many network subscribers in China. At the same time, it uses computers to send various types of information from China to the headquarters and distribute them worldwide.

In recent years, the Chinese section of TIPS has collected, processed, and put into the central information network of the nation's more than 20 cities in excess of 40,000 pieces of international technological, economic, and trade information and has propagated for its domestic subscribers more than 5,000 pieces of information to other nations through various international information networks and information organizations.

### Need for Foreign Trade Law Discussed

94CE0042A Beijing GUOJI JINGMAO XIAOXI  
[INTERNATIONAL TRADE NEWS] in Chinese  
10 Aug 93 p 2

[Article by Huang Heqing (7806 3109 3237): "GATT Restoration Calls For Early Inauguration of a 'Foreign Trade Law'"]

[Text] In July 1986 China called for restitution of its GATT signatory status as its reform and opening to the outside world intensified. As of June 1993, China's GATT working group has held 14 meetings, China

conducting wide ranging and thorough exchange of views with signatories on the content of a protocol. In addition, a consensus has been reached with GATT on some problems. Japan, New Zealand, Czechoslovakia, and Australia have also announced tariff concession negotiations with China. Foreseeably, the date for restitution of China's GATT status is not far off. An overview of the GATT negotiation process suggests that, political considerations aside, the main obstacle to China's re-entry lies in China's trade system itself, meaning that trade legislation is not complete and the trade system is not sufficiently transparent despite China's initiative in having published the provisions of 47 applicable documents. In addition, China's trade administration policy legislation is not as complete as it should be, no foreign trade legislation having been inaugurated to date. This legislation lag makes it difficult for other nations to understand China's trade system. Therefore, acceleration of the GATT re-entry process calls for earliest possible inauguration of a "foreign trade law."

**First: International trade practice calls for a "foreign trade law."** A foreign trade law is a law that coordinates foreign economic relations and commercial intercourse in goods, labor, capital, and revenues and expenditures. It is an important means of ensuring freedom in foreign economic relations and commercial intercourse. Virtually all the GATT signatories have trade laws. For example, the United States has an "American Trade Bill," and the Federal Republic of Germany has a "Foreign Trade Law," etc. Existence of a trade law has become a yardstick for judging the transparency of a nation's trade system and policies in international trade. This has become an international practice. Therefore, drafting of a "foreign trade law" is urgently needed to accelerate China's GATT re-entry process, and to protect free commercial intercourse following re-entry.

**Second: China's foreign trade situation calls for a "foreign trade law."** China's economy has gradually become a part of the international economy, China's foreign trade accounting for 36 percent of GNP. The percentage of GNP derived from domestic production has dropped from 90 to between 70 and 80 percent. More than 20 percent of products used in China come from the international market. This means that foreign trade plays an increasingly important role in supporting the nation's economy. However, since China is still outside of GATT, it is unable to enjoy the low tariffs that other signatory nations enjoy. High tariffs are extremely detrimental to the development of China's trade, but 85 percent of China's foreign trade today is with 106 nations that are GATT members. This foreign trade situation calls for restitution of China's GATT status, and it calls for a foreign trade law. For example, by international practice, the foreign trade law of every nation contains clauses limiting foreign trade. Specific measures for limiting foreign trade are prescribed by legislation. The adoption of these measures may be for the purpose of complying with GATT, or to avoid

harmful effects from abroad (such as the importation of inflation), or to safeguard the nation's economic security and diplomatic interests, etc. Thus, foreign trade laws help protect development of foreign trade.

**Third: The international trade climate calls for a "foreign trade law."** China's economy has developed very quickly producing numerous trade frictions with some nations. GATT restitution will help balance trade, and will help improve the international trade climate. Furthermore, China has been treated somewhat unfairly in international trade. Resolution of this problem urgently requires a foreign trade law for legal support.

**Fourth: Elimination of local trade protectionism calls for a "foreign trade law."** Serious local trade protectionism causes a duplication of imports and a waste of money. Decline in the economies of scale have led to a great weakening of China's competitiveness. The intensification of economic reform requires elimination of local trade protectionism. Good operation of China's macro-economy requires the building of a free trade system for the development of economic relations and trade, which must be guaranteed by legislation.

#### Article Views Trademark Law Amendment

93CE0879A Beijing JINGJI GUANLI [ECONOMIC MANAGEMENT] in Chinese No 176, 5 Aug 93 pp 32-34

[Article by Wang Min (3769 2404): "China's Maturing Trademark System"]

[Text] It has been exactly 10 years since the ratification of the "PRC Trademark Law" by the 24th Session of the Fifth NPC Standing Committee on 23 August 1982 and its implementation on 1 March 1983. On 28 Feb 1993, at the 30th Session of the Seventh NPC Standing Committee, the "Decision To Revise the 'PRC Trademark Law'" was ratified. The amendment (draft) was debated at the 29th and 30th sessions of the Seventh NPC Standing Committee. Many revised articles ratified at the 30th session were different from those in the amendment (draft) presented by the State Council to the 29th session for examination. Understanding and analyzing the pertinent situation can be very helpful in understanding the purpose of revising the trademark law and the new role of the amended trademark law in our economic lives.

Trademark laws and regulations are legal standards pertaining to trademark registration and management and protection of the exclusive rights to use those trademarks; they are promulgated by the state to regulate the social relations resulting from the use of trademarks. Since the founding of New China, four sets of trademark laws and regulations have been promulgated in succession. The first, "Provisional Regulations on Trademark Registration," was promulgated by the General Administration Council in July 1950. The second, "Provisional Method of Managing Unregistered Trademarks," was promulgated in 1954. The third, "Trademark Administration Provisions," was promulgated by the State

Council on 10 April 1963. The fourth, "PRC Trademark Law," was implemented on 1 March 1983. Looking at the laws and regulations themselves, the "Trademark Law" is more systematic and complete than the previous versions. We can say that it is a set of trademark laws which makes securing and protecting the exclusive rights to use registered trademarks its core and which makes the supervision of product quality its main feature, and it is uniquely Chinese. Moreover, to implement the trademark law more effectively, on 10 March 1983, the State Council also promulgated the "Detail Rules on the Implementation of the Trademark Law" which contained the detailed rules on some specific issues.

In the 10 years since the implementation of the trademark law, China has accepted 450,000 trademark registration applications: approximately 400,000 were domestic trademark application and 50,000 were foreign applications. The number of applications each year has increased from 18,500 in 1982 to around 80,000 in 1992. Investigation of trademark infringement cases have increased from 32 cases in 1982 to 16,100 cases in 1992. Clearly trademark laws play a very important legal role in protecting the exclusive rights to trademarks, in encouraging the producers to guarantee product quality and protect the reputation of their trademarks, in protecting the legal rights and privileges of the consumers, and in promoting the development of the socialist market economy and foreign economic and technological exchange.

But the "Trademark Law" nevertheless was formulated at the beginning of China's reform and opening up. With the passage of time, and as the economic developed and situations changed, some new problems have emerged. For this reason, in the Trademark Law Amendment (Draft), the State Administration for Industry and Commerce emphasized that as the reform and opening continued to deepen, we continued to accumulate practical experiences, and meanwhile, in 1985 and 1989, China became a party to the "Paris Convention on Protecting Industrial Property Rights" and the "Madrid Agreement on International Trademark Registration" respectively, the purpose of which was to further improve our own trademark system and to link our method to international practices, so as to meet the needs of the development of our socialist market economy. Proper amendment of the existing "Trademark Law" was inevitable. Thus, the most urgent and the most direct reason that prompted the State Council to propose the Trademark Law Amendment (Draft) was to link China's trademark law and system to international practices. In fact, it was in 1989, the year we joined the "Madrid Agreement on International Trademark Registration," that the State Council began to study the relevant questions of amending the Trademark Law. After more than three years of studies, debates, and repeated revisions the "Trademark Law" Amendment (Draft) was finally submitted to the 29 session of the Seventh NPC Standing Committee for debate.

The "Trademark Law" Amendment (Draft) proposed by the State Council covered six main areas: 1) To include



service trademarks in the protective scope of the trademark law. 2) To stipulate that geographic names may not be used as trademarks. 3) To simplify the trademark registration application procedures. 4) To put more conditions on the licensed use of trademarks. 5) To extend the deadline for contesting a trademark registration. 6) To add new stipulations to revoke deceptive trademark registrations. The amendment specifically revised seven articles.

When debating the "Trademark Law" Amendment (Draft), the committee members agreed on the need to amend the trademark law and that the Amendment (Draft) basically was acceptable. At the same time, they also made some incisive proposals. There were two central points: One, it was suggested that the Trademark Law Amendment (Draft) failed to deal with, or sufficiently deal with, trademark infringement and acts of defrauding the consumers which were conducts that had the greatest impact in real life. There was an article in the amendment (draft) that stated, "If deceptive means or other improper means were used to obtain trademark registration, the Trademark Bureau should revoke the registration." The members suggested that this was inadequate and that it failed to punish the culprits. Two, it was suggested that the trademark law had to cater to and abide by the policies and the interests of China's economic development and had to be consistent with the policy to enliven the economy. The amendment (draft) had a new regulation which stipulated, "It should be declared on the product any trademark licensing relationship, the licensee's name, and the product's place of origin when using other people's registered trademark under a licensing agreement." Some committee members believed that such regulation could undermine production development and could have the side-effect of constraining the productive forces.

The "Decision To Revise the 'PRC Trademark Law'" ratified at the 30th Session of the Seventh NPC Standing Committee contained nine official amendments. Except for one which followed the proposed amendment (draft) to the word, five had been revised by the committee members, and three had not been in the original amendment (draft) and had been added based on the committee members' ideas.

The new trademark law which was put into effect on 1 July 1993 is more comprehensive, better, even more consistent with the trend of world economic development, and tailored even more to the people's wishes than before. Specifically, the revised trademark law has the following characteristics:

#### **One: Expanding the Protective Scope of the Trademark Law**

In the past, China's trademark law only protected product trademarks and did not protect service trademarks; even well-known trademarks generally protected internationally were not specifically protected here. As China's economy developed, especially with the rise of

the tertiary industry, there were more and more service trademarks, and there was a pressing need to give service trademarks some legal protection and change the situation where people could arbitrarily use other people's service logo and engage in unfair competition. Moreover, the "Paris Treaty on the Protection of Industrial Property Rights," which China is a party to, requires the member nations to protect service trademarks, and many countries' trademark laws also explicitly protect service trademarks. Therefore, two clauses have been added to Article 4 of the new trademark law: "Services provided by enterprises, institutions, and individual industrialist and entrepreneurs that require exclusive trademark rights should apply to the Trademark Bureau for service trademark registration," and "Regulations in this law pertinent to product trademarks are also applicable to service trademarks." The revised trademark law has also taken appropriate clauses from the Paris Treaty to protect well-known international trademarks. As a member state, China has the obligation to abide by the pertinent regulations to protect foreign trademarks.

#### **Two: Even More Consistent With International Practices**

Making China's trademark system more consistent with international practices was one of the goals of this amendment of the trademark law. The revisions that started out with this goal not only included service trademarks in the protective scope but also achieved the following:

1) The original trademark law made no stipulations about using geographic names in registered trademarks, and consequently, some problems have emerged in practice. Learning from some nations which do not permit the use of geographic names in trademark, and taking into consideration that many of China's products are already using geographic names as trademarks, a new clause is added to Article 8 of the new trademark law: "Names of administrative districts at above county levels and well-known foreign geographic names may not be used as trademarks. Geographic names that have other connotations are exceptions. Already registered trademarks using geographic names shall remain valid."

2) The original trademark law stipulated that a trademark application could be used by only one type of products, that is, "one schedule per product type." This made things difficult for enterprises that produced many products. The "Madrid Agreement on International Trademark Registration," to which China is a party, permits the use of "one schedule for multiple product types" when applying for trademark registration. The procedure is simple. China is in fact moving toward this method. Therefore the new trademark law has changed Article 12 to read, "The same applicant using the same trademark on different types of products should list the different products on the registration application."

Three, the original trademark law did not have appropriate regulations to deal with illegal profits generated by deceptive trademark registrations or the use of improper means to register a trademark which has long been in use by another party. The new trademark law complies with the relevant terms of international treaties and follows the practices of other nations and stipulates in Article 27, "Registered trademarks that violate Article 8 of this law, or trademarks registered by deceptive means or other improper means will be revoked by the Trademark Bureau. Other units or individuals may request the Trademark Adjudication Committee to revoke the registration of those trademarks."

### Three: Severe Penalties for the Crime of Trademark Counterfeiting

To protect the exclusive trademark rights, safeguard the consumers' rights and privileges, and promote improvements in product quality, the new trademark law has made four revisions based on the principle of severe penalties for the crime of trademark counterfeiting. The NPC Standing Committee even specifically ratified the, "Supplementary Provisions on Severe Punishments for Counterfeiting Registered Trademarks": In the counterfeiting other people's registered trademark, selling products known to be using counterfeit trademarks, or unlawful creation of registered trademark logos, if the illegal profit so generated is fairly substantial, besides compensating the injured parties for their losses, the offenders will be sentenced to up to three years of prison or detention and/or fines. If the illegal profit is very substantial, the prison term may be three to seven years plus fines. State employees using their office to deliberately shield enterprises, institutions, or individuals who have committed the above crimes from prosecution, or if they have the responsibility to prosecute but fail to fulfill their legal obligations, they will be held criminally responsible.

If we compare this set of new trademark laws with the trademark laws of other nations, we will see that China's trademark protection has reached the standard of "international practices" and that it is uniquely Chinese in character. This signals that China's trademark system is approaching maturity.

### Direct Foreign Investment Strategies Readjusted

93CE0864A Beijing JINGJI RIBAO in Chinese  
19 Aug 93 p 5

[Excerpt] Since 1992, although there has been a gradual tightening in the supply of international funds, our use of foreign investment and development of enterprises has been extraordinarily vigorous and encouraging. However, past experience has taught us, when the economy is developing rapidly, we need to control the direction of development and adjust economic construction; otherwise, it will be too late and too costly to try to adjust the economy in the future. Therefore, in order to maintain good control of the development of foreign-invested

enterprises [FIEs] while the whole national economy grows, we believe the following several issues should be emphasized:

**Further put into play the guiding function of industrial policy, guide the flow of foreign investment, overcome the tendency towards solely pursuing the expansion of scale, enable the readjustment and systemic change towards unity of the mode of foreign investment and our economic growth.**

Since the 1980s, development based on foreign direct investment has been very rapid, with the actual amount to about \$1 billion in the early 1980s and almost \$4 billion by the early 1990s. In 1992, there was a breakthrough growth of \$11.3 billion, exceeding the foreign debt (\$7.9 billion) for the first time. The rapid increase of foreign investment in China has made us one of the areas of the world with comparatively more new and increased direct investment.

Studying the internal logic of our industrial structural growth, during the past decades, our manufacturing industry has gone through a period of rapid development in the consumer goods industry. When foreign businesses have entered the Chinese market, they have first chosen the consumer goods industry—since it requires only small amounts of investment and shorter return periods, as well as enabling the investor to expand gradually on the profit of final products. Current statistics show that FIEs by industry are broken down into 3 percent in the primary industry, 81 percent in the secondary industry and 16 percent in the tertiary industry.

The special structural features of FIEs tally with our relative advantages in the international market and FIE developmental results have been notable. However, if we analyze from a more dynamic point of view, the further development of such enterprises will inevitably face the problem of balancing their developmental scale with systemic restraints. The main phenomena are: First, the labor-intensive processing industry will be the main attraction to foreign investment and will expand for a long period of time, while in the meanwhile, since our natural resource per capita is rather low, expansion in the processing industry will definitely require strict control of our natural resources. Second, if we want to obtain more and more resources from the world market, we need more foreign exchange reserves, which means developing exports. However, our main export is labor-intensive products which have very low value added and are facing a declining trade condition. Thus it is very difficult to primarily export labor-intensive products in the long term. Such a dilemma will inevitably urge us to speed up fundamental industry and infrastructure, to strengthen investment in technology and then shift the trend of development to the traditional processing industry to upgrade the industrial structure and orient industrial development, in order to balance its scale with the structure of foreign investment. [passage over]

**Sino-Russian Border Trade Trends**

94CE0042B Harbin HEILONGJIANG RIBAO  
in Chinese 28 Aug 93 p 8

[Article by Xin Xiwen (6580 1585 2429): "New Trends in Sino-Russian Border Trade"]

[Text] 1. Trading partners are moving toward the development of blocs. This means that, using as a turnkey the respected position they have won as old partners, a few big companies control and manipulate both Chinese and Russian trading markets. These few big companies generally have direct foreign trade business rights. They are economic entities that are able to obtain export licenses in their own country, or they are economic entities that organize consignment and authorization because they enjoy foreign trade rights. They possess enormous ability to pay spot cash, and they are able to organize rapidly legal supplies of goods in their own country. This means that small- and medium-sized trading companies have to rely on these few big companies if they are to do any business at all.

2. Spot cash trading sustains the barter trade. Trading among respected large companies of a monopoly character requires support from a certain amount of spot cash trading, the amount running between 20 and 30 percent of total trade. Trading among most medium and small companies requires between 30 and 70 percent of cash transactions for support. Barter trading alone is virtually impossible. Because Russian prices and tariffs are constantly rising, all trading companies "would rather do a combination of money transactions and barter transactions; they do not want to do barter trading alone." The Chinese side in the barter trade is even less willing to take the risk of receiving goods that it cannot easily dispose of. Therefore, a situation is taking shape in which spot cash transactions sustain trade.

3. Gradual narrowing of price differences. Since Chinese and Russian personnel have frequent contact, since trade information circulates freely, and since the Chinese partners to the trade compete, the Russians increasingly understand changes in prices of Chinese goods. Furthermore, the rise in prices of Russian goods and the increase in Russian tariffs have narrowed the difference in prices of the goods of the two parties, and profit margins have declined or have become non-existent. This obstructs trade.

4. Standardization of varieties needed. Thanks to several years of trading between the Chinese and the Russians, both sides have gained an understanding of the kinds of goods bartered, the scale of the barter trade, and the profits to be made. The Russian side has greatly raised the prices of a large number of goods that the Chinese urgently need, and they have also raised import duties on goods from which the Chinese make a profit. Meanwhile, China has not correspondingly required greater limitations on the make-up or prices of goods that the Russians

export or on the amount of labor and capital exported. Inevitably this puts China at a disadvantage in trade with Russia.

5. The border trade is penetrating the hinterland. Most of the sources of supply for the bilateral trade between China and Russia are in inland areas. Trade goods are in short supply in the border areas of both countries, and markets there tend to be saturated. Consequently, trading, investment and cooperation have gradually penetrated and expanded to all parts of the hinterland.

6. Investment imbalance. For the past several years, the Chinese have been anxious to dominate Russian markets; thus, a "one sided wooing" by China has occurred in the export of labor services and investment in the operation of enterprises as part of the barter trade. This, together with the effect of Russia's economic reform policies, has produced a Chinese investment that is markedly higher than that of the Russians, and this is also an investment that cannot be recovered in a short period. A situation in which the Russian side stands to make a profit and we stand to lose is extremely pronounced.

**Enterprises React To Loss of 'Old Rubles'**

94CE0042C Harbin HEILONGJIANG JINGJI BAO  
in Chinese 4 Sep 93 p 3

[Article by Xu Kemin (1776 0344 3046): "Provincial Foreign Exchange Administration: 'Effect on Heilongjiang Border Entry Point Cities of Russia's Scrapping of the Old Ruble'"]

[Text] On 24 July, the Russian Central Bank announced that as of 0 hours on 25 July, all paper currency issued between 1961 and 1992 would become invalid. At the same time, it prescribed that during the two week period running from 26 July - 7 August, a certain amount could be exchanged for new rubles. The reaction of enterprises and residents in Heilongjiang's main point of entry cities was mixed.

**1. Amount of Rubles on Hand in the "Three Cities"**

Incomplete statistics show that before announcement of the scrapping of the old rubles, border trading companies, individual trading households, and border peoples in the three cities of Heihe, Dongning, and Suifenhe held approximately 1.4 billion rubles.

Prior to the scrapping of the old ruble, concerns in Heihe City generally had tens of thousands or hundreds of thousands of rubles on hand to make trading easier. Extremely few had more than 1 million rubles on hand to import goods. Individual trading households also had between several ten thousand and several hundred thousand rubles on hand. Only one of scores of firms or households canvassed on 24 July had more than 1 million rubles on hand, and it had 4 million. In addition, rubles on the invisible market totaled more than 200 million in various places on the same day. Dongning city



had 200 million; Suifenhe had 700 million; and civilians along the border had about [digit indistinct] million.

## 2. Old Ruble Exchange Price Trends

The value of the ruble was very low in Heihe markets. On 24 July, 100 rubles traded on the market for 0.85 yuan renminbi, 100,000 rubles trading for no more than 850 yuan. This was not very important for most ruble holders, border trading enterprises, and individual households. More than half of the rubles in the Heihe market were 5,000, 10,000, and 50,000 ruble notes printed in 1993, which continued to be used, but the discarded old rubles, large quantities of which Russian tourists and civilian traders had purchased since 26 July, the price the exchange price that day was 0.35 yuan renminbi per 100 rubles, rising to 0.45 yuan renminbi on 27 July, and rising still further to 0.65 yuan renminbi on 28 July. Thus, losses to ruble holders gradually declined. Small amounts of rubles held by people scattered throughout the border area could not be disposed of, nor were they worth a trip to Russia to exchange. On 24 July, the lowest exchange rate in Heihe was no more than 0.35 yuan per 100 rubles.

When the Dongning entry point learned of the scrapping of the old ruble, it began to transfer them out of China and into Russia for conversion, and it sold them at half the market price to buyers coming to China from Russia. In some cases, they consigned them to Russians for exchange. On the Russian black market, 1 ruble sold for 3 thousandth of a yuan. Local foreign exchange administration units halted dealings with industrial, commercial, and public security units.

## 3. Border Trade Enterprise and Border Civilian Situation

When news reached Suifenhe about the Russian central bank's announcement on 24 July of a halt to the circulation of rubles printed under the former Soviet system (between 1961 and 1992) and the setting of a time limit and an amount of rubles that could be converted, all border trading companies and residents were very greatly shocked. Even though the Russian Customs rigorously questioned and examined Chinese personnel crossing into Russia during those several days, every company and some residents used every possible means to carry into Russia the rubles that they held. Not only did they exchange the prescribed amount, but they exchanged old rubles at half their total value with Russian trading partners or with Russian residents along the border. Border trading company losses from the exchange for new rubles printed in 1993 amounted to nearly 300 million rubles, or nearly 3 million yuan renminbi. Border resident losses from the exchange came to nearly 150 million rubles, or 1.5 million yuan renminbi.

Rubbles held by border trading companies and individuals in Heihe and Dongning were exchanged with Russians to be sold to Russians coming to China to make purchases. Old Russian friends and trading partners were consigned rubles for exchange, and managed to get

rid of them pretty well. An overwhelming majority of the scrapped old rubles were purchased by Russian tourists, or taken to Russia by Chinese traders. Although the scrapping of the old ruble did not cause panic among border trade companies and citizen traders in Heihe and Dongning, it did have a certain effect, causing a certain amount of loss for enterprises holding rubles. On the surface, this event did not set off big waves in Dongning, but for trading firms making good profits who had a substantial amount of rubles on hand, losses were also substantial.

Rumors about the invalidation of the ruble had circulated earlier in Heihe. In addition, the lessons learned from the 1991 prohibition against the circulation of large amount of paper currency produced a large movement of rubles into and out of the Heihe market, the time that rubles remained in the hands of individuals becoming shorter and shorter, and ruble holdings were scattered. Because of the steady decline in the ruble's value and reputation, the amount of rubles on hand in Heihe fell greatly, most people not wanted to continue to hold rubles. Thus, the flow of rubles into the city decreased sharply. On 26 July, when Yeltsin announced suspension of the old ruble exchange measures, and a liberalization of limits on amounts that could be exchanged, foreign holders of rubles enjoying the same treatment, the frame of mind of ruble holders also improved.

## 4. Border Trading Companies Call for Remedies

Hurt by this halt in circulation of the old ruble, all border trading companies in Suifenhe excitedly called for government financial departments to act quickly in establishing branches and sub-branches, to open accounts clearance channels, and to speed up final accountings to avoid losses. They called for immediate study of the drawing up of new approaches to put border trade and barter trade on a cash basis.

## Effect of GATT Entry on Domestic Prices

94CE0042D Beijing JINGJI CANKAO BAO in Chinese  
12 Sep 93 p 4

[Article by Ding Hongwen (0002 1738 2429) excerpted from 16 July 1993 GAIGE RIBAO (REFORM TIMES): "Following GATT Re-entry, Will All Domestic Prices Likewise Track the International Market?"]

[Text] The view that GATT re-entry will have a "radical" effect on prices of domestic processed steel, that domestic prices will track international prices, and that enormous supplies of processed steel from the international market will have a "macroeconomic regulation and control" effect on domestic market supply and demand merits discussion. These views suggest, in effect, that following China's re-entry into GATT, everything in the domestic market will be decided by the international market, and that the two great domestic and international spheres will no longer exist. Such a view runs counter to the original intent of GATT re-entry.

GATT mostly prescribes the international trade conduct of signatory nations. Signatory nations must be market economy nations, and they must abide by uniform trade and tariff policy regulations. However, this is not to say that signatory nations cannot have independent policies and systems, much less does it mean that signatory nations may not have independent domestic market prices, or that all domestic prices must track international prices. The relationship between supply and demand, and policies determine prices. This is true for both the domestic market and the international market. Domestic market prices are determined by the relationship between supply and demand of the domestic market and policies. International market prices can only play an influencing role. Following China's GATT re-entry, this influencing role may be fairly strong. For some commodities or markets, it may play a decisive role, or identical domestic and international prices may occur. However, generally speaking, international market prices cannot play a decisive role. Domestic supply and demand and policies will continue to play the decisive role.

The international market has no truly standard prices. Some prices (such as the price of nonferrous metals on the London Metals Exchange) have a certain authoritativeness and representativeness for the international market, but actual prices in each country do not have to track them. This is because, like domestic prices, international prices are all dynamic prices shaped through competition. Not only will China's imports and exports be affected by the competitive price for all nations, but China's import and export prices may affect the international market price.

## ECONOMIC ZONES

### Shenzhen City Leadership Vie for Power

93CE0866A Hong Kong KAIFANG (OPEN MAGAZINE)  
in Chinese No 8, 18 Aug 93 pp 20-21

[Article by Su Renyan: "Li Youwei Fights Li Hao by Luring Tiger Out of Mountains—Old and New Leaders of Shenzhen City Government Vie for Power"]

[Text] The influence of Li Hao, former Secretary of the Shenzhen City CPC Committee, is deep-rooted. He is worth 100 million yuan. New Mayor of Shenzhen Li Youwei uses the trick of luring the tiger out of mountains to purge Li's influence. Fu Liang, son of Peng Zhen, has amassed a fortune by engaging in land speculation.

A shocking explosion occurred in Shenzhen on 5 August. Many people were killed and injured. The bad news shocked the capital. However, Li Youwei, Mayor of Shenzhen and Secretary of Shenzhen City CPC Committee who took the posts not long ago should be on the spot to do rescue work, but he was touring a foreign country. Accompanied by former Mayor of Shenzhen Li Hao and Director of the "Shenzhen Special Economic Zone Daily" Ou Huiwen, Li Youwei was said to be on a business trip to attract more foreign investors.

### Li Hao's Influence Threatens Li Youwei

However, this business trip is not a simple one. It is reported that Li Youwei had already made arrangements before he left. When he brought Li Hao to the United States, his trusted followers would take actions to eliminate Li Hao's influence.

Li Hao held power in Shenzhen for seven years. His influence is already deep-rooted. Also, he is rich and influential. It is reported that he is worth a 100 million yuan. Therefore, he did not care much about the post offered by the central authorities as Vice Chairman of the NPC Financial and economic committee. He refused to accept the post, and rather stayed in Shenzhen to work as a city government advisor.

However, he, as an advisor, poses a great threat to Li Youwei. Li Youwei has trouble to put those who were originally under Li Hao to work. At one time, he even went to Guangzhou to complain to the provincial government of the problem. What makes him even more angry is the fact that the official newspaper of the city party committee "Shenzhen Special Economic Zone Daily" only regards Li Hao who has already stepped down as its superior. From time to time, it allows Li Hao to show himself on its front page, while it carries less reports on its new master Li Youwei. Sometimes, it even publishes reports on Li Youwei in less prominent space on page three or page four.

Therefore, Li Youwei starts to apply the axe to the leadership of the "Special Economic Zone Daily" in order to eliminate Li Hao's influence. In late July, the city CPC committee relieved the director and the editor-in-chief of the newspaper from their posts. Director Ou Huiwen was transferred to work for the local association of reporters while the editor-in-chief was assigned to work as a research fellow in a policy research office.

It was reported that both Li Hao and Ou Huiwen who were visiting the United States were shocked when they heard the news. Nevertheless they had to admire Li Youwei's strategy in luring the tiger out of mountains.

### Zheng Liangyu Elbowed Out To Work in Jiangxi

What amuses us was the fact that no sooner had these two confidants of Li Hao been driven out of the "Shenzhen Special Economic Zone Daily", the newspaper had carried an news item in a prominent space on the next day about Vice Governor of Jiangxi Zheng Liangyu meeting Hong Kong businessman Li Jiacheng.

When Zheng Liangyu was the Mayor of Shenzhen, Li Hao always tried to push him out. Right after the turmoil in Shenzhen's stock market in August 1992, Li Hao seized the opportunity to have Zheng transferred to Jiangxi. It was reported that when Zheng Liangyu was leaving, he indignantly said: "I'll leave. I am not reluctant to leave, because even if this stock market incident did not happen on 9 August, I would still be forced to leave."

Zheng Liangyu also implied that he had never let the party down. When I take the post, I was alone. I would leave alone when I leave this post, he added. Those who know the inside story said, Zheng implied that he did not amass a fortune like Li Hao.

As for where Li Hao has amassed his fortune, there are many opinions within the Shenzhen City Government. Most of the people said that he makes money from buying and selling stocks and shares, while others said that he becomes rich by selling land to high-ranking officials' sons and daughters to develop their real estate businesses.

Just like in Hong Kong, high-ranking officials' sons and daughters are extremely active in Shenzhen. All of them have made a great deal of money in the recent fervor for real estate business. According to what we know, one of them is Fu Liang, Peng Zhen's youngest son.

Fu Liang establishes a company in Shenzhen, called "Bailing Real Estate." The company has only a name. It is not even registered. Hoisting high his old father's signboard, he is now doing good business and making good money without any capital.

When the City Urban Construction Development Company under the administration of the City of Shenzhen built the Emerald Garden in Shenzhen in 1991, Fu Liang asked Chang Xueming, General Manager of the development company, for houses so that he can sell them out to make some money. Chang Xueming gave Fu 88 flats in one breath without asking Fu to pay any earnest money. Chang said generously: Whatever profit you reap is yours. You only need to pay me back the original cost.

#### **Peng Zhen, Fu Liang Remain Unpunished for Illegally Buying and Selling Houses**

Later some of the cadres of the company which signed contracts to build the houses were upset, when they heard about what happened. Eight of them jointly wrote a letter to the City CPC Committee and the Central Disciplinary Commission to expose this incident. However, Fu Rui, another son of Peng Zhen, is a standing committee member of the Guangdong Provincial CPC Committee and the director of the committee's Organization Department. Fu Rui gave Chang Zhonglin, director of Shenzhen's organization department a phone call, and this case ended up with nothing definite. The authorities concerned concluded that it was basically true that eight persons had filed their complaint, but there was little they could do about it.

Chang Xueming and Fu Rui remain unpunished, although they have violated state law and party discipline. Nevertheless, the eight persons who filed the complaint were given vindictive blow. All of them lost their jobs. The journal for internal circulation within the Shenzhen City Government DAILY EXPRESS got trouble for reporting on this incident. Li Tong, Editor-in-Chief of the journal, was fired.

Some people working for the Shenzhen City Government said that obviously Li Hao's fortune is an ill-gotten wealth. In addition, new Mayor of Shenzhen Li Youwei is hard on him and wants to punish him. Normally, Li Hao may possibly witness havoc. However, Li's wealth involves many people, particularly numerous sons and daughters of high-ranking government officials. Therefore, basically no one can touch him. Right now he can safely sit idle and enjoy his wealth.

#### **Shenzhen Businesses Review Stock System Issues**

93CE0882A Guangzhou TEQU JINGJI [SPECIAL ZONE ECONOMY] in Chinese 7 July 93 p 29

[Article by Wang Fuqian, affiliated with the Personnel Bureau of Shenzhen City: "Several Issues on Introducing the Joint Stock System Into Merchandising Enterprises in Shenzhen City"]

[Text]

I

There are several arguments concerning conducting joint-stock system trial operations in state-owned merchandising enterprises in Shenzhen City: First, merchandising enterprises's business operations are closely related to policies, and changes in circulation policy will directly affect the enterprises' performance and are therefore prone to cause large fluctuations in stock trading. Second, merchandising enterprises are strongly dependent on the market, but good market mechanisms for achieving equilibrium between supply and demand have not been formed yet. Third, some merchandising enterprises, such as those engaged in means of production, import and export, chemical fertilizer and insecticide businesses, etc., enjoy almost monopoly rights because of the advantageous business-operation positions given by the government; the fear is that under the joint stock system, monopoly profits might flow to society, resulting in the reduction in the state's fiscal revenues. Fourth, most merchandising enterprises do not have production bases, but operate only in the circulation sphere, and thus face greater risks and fluctuations; when they are turned into public companies, large social fluctuations can easily occur. Thus, some people suggest that it is proper to refrain from proceeding with introducing the joint stock system into merchandising enterprises for now.

However, Shenzhen's merchandising enterprises have some unique characteristics:

- 1) Shenzhen's merchandising enterprises have received little foundational input and have a short history, and they have gone through a process of independent development.
- 2) Shenzhen's merchandising enterprises have adopted the approach of concentrating on one line of business on the basis of conducting diversified business operations. In view of the policy flexibility of the special economic zone, many merchandising enterprises do not just engage in trading activities in the circulation sphere. Those



enterprises have good production bases, and have thus increased their capacity to withstand market risks.

3) There is a tendency toward nonmonopoly business operations. After the reform of the circulation system, many special merchandising corporations do not have monopoly business rights. For instance, the Shenzhen Petroleum Corporation has to compete with 88 enterprises authorized to engage in petroleum business. Of the over 600,000 metric tons of petroleum sold each year, only 12,000 metric tons were governed by state plans, accounting for only 2 percent of the total sales. Thus, it has to study the market and watch changes in the situation of supply and demand closely, just as any other enterprises do.

4) There are a number of reputable, sound merchandising enterprises. Under the situation where market behavior is not sufficiently standardized, it is difficult for state-owned merchandising enterprises to make profits through just retail sales; nevertheless, some stores which are good in business ethics have consolidated their positions. Such stores include, for example, the International Market, Shanghai Light Industry General Market, Tianhong Market, and Xinghua Light Industry Market.

5) Some of the listed joint-stock enterprises are carrying out active merchandising and trade activities, with revenues from trade constituting a substantial proportion. This shows that eliminating monopoly and winning through competition represent a trend in the economic environment of the special economic zone.

In regard to development directions, the contracting method used in the previous period has only resolved merchandising enterprises' problem of immediate development, but cannot resolve the fundamental problems. Only by adjusting the ownership mechanisms would it be possible to get out of the trough. In addition, with the adoption of the joint stock system, the returns on the state assets in enterprises can be determined in accordance with the number of shares owned by the state. In this way the old and difficult problem of constant wrangling over the profits to be handed over by enterprises will be resolved.

As shown in practice, it is both necessary and feasible to transform Shenzhen's merchandising enterprises into enterprises using the joint-stock system.

## II

In the future, in the course of carrying out reform which introduces the joint stock system, it is necessary to select a few merchandising corporations which produce good returns, which meet the requirements of listed companies, or which have business foundations, to be models serving demonstration purposes, so as to bring along the reform of the circulation system, thereby increasing the scale of the state-owned merchandising sector and giving play to its due role.

As none of the joint-stock merchandising enterprises in Shenzhen City is listed, it is proper to adopt the method

of forming joint stock companies internally first, or formulate objective and proper criteria, and then select trial points cautiously. The criteria should be as follows:

First, a joint-stock merchandising enterprise should have a good record of business performance and development prospect as well as substantial net assets.

Second, a joint-stock merchandising enterprise should concentrate on one line of business, while carrying out diversified business operations, and should have a production base, thereby being in an advantageous position enabling itself to withstand market fluctuations and to keep competitive.

Third, a joint-stock merchandising enterprise should be a nonmonopoly enterprise. If its business operations involve a small amount of plan-controlled goods, it is proper to have the monopoly profits handed over through a separate channel, after the reform which introduces the joint stock system.

Fourth, introduce the joint stock system in selected merchandising enterprises which involve the public good. Having such enterprises adopt the joint stock system and issue stocks can expand the production base and deepen the capacity for advanced processing, and can, at the same time, also reduce the pressure on state finance and increase social gains and economic gains.

## III

Compared with the situation in the hinterland, the reform which introduces the joint stock system into the merchandising sector started later in Shenzhen City, but is likely to lead to a more standardized result. This is because:

1) The situation where merchandising enterprises have issued no enterprise shares can remove obstacles to reform;

2) It is possible to publicly issue stocks directly to society, thereby exploiting the advantage given by the existence of the Shenzhen stock market;

3) There is support provided by good secondary markets, where trading is active;

4) The practical experience accumulated through several years of reform efforts to introduce the joint stock system and of the functioning of the system can be consulted;

5) The proximity to the international market provides good conditions for business operations and an external reference frame.

Therefore, it is necessary to actively and steadily proceed with the reform which introduces the joint stock system into the merchandising sector, and promote the listing of the relevant enterprises.

In the future, it is necessary to vigorously advocate that merchandizing enterprises run industrial operations, that merchandizing enterprises run production operations, and that merchandizing enterprises run bases of production of goods for export. At the same time, it is also necessary to formulate a measure to encourage merchandizing enterprises to invest in the production sector and buy shares of production enterprises, so as to change the phenomenon of separation of circulation from production which has long been in existence.

## AGRICULTURE

### GATT Potential Impact on Agricultural Trade

93CE0844A Beijing ZHONGGUO NONGCUN JINGJI  
[CHINA'S RURAL ECONOMY] in Chinese No 7,  
20 Jul 93 pp 10-17

[Article by Cheng Guoqiang, Institute of Agro-Economic Administration of Central China Agricultural University: "China's Agriculture: Opening to the Outside World and Protection"]

[Text] China's rapidly approaching re-entry into GATT is forcing China to face with a contradictory choice of whether it should fulfill the bounden obligations as a GATT signatory nation to open up its domestic market in an overall manner or adopt certain protective measures for the healthy development of its national economy. Apparently we have no reason at all to sacrifice one for the other. That is to say that we cannot ignore the gigantic benefits which China would reap from the world multi-lateral trade system and international cooperation. At the same time, we also have no reason to let our agriculture to wither due to lack of protection and thus hamper the process of industrialization in China. However, what should we choose between opening up and protecting our agriculture? Or it can be said that what is China's feasible policy on agriculture and trade within the frame of the world multi-lateral trade system? This article will try to preliminarily explore the related issues.

### Foreign Trade in China's Agriculture

As a potential huge market with a population of over 1.1 billion, China has already attracted the attention of its trade partners in the world. Particularly China has changed from 1980 when it ranked 28th in the world's

export trade and accounted for less than 1 percent in the world trade volume to 1992 when it ranked 11th in the world's export trade and accounted for 2.3 percent of the volume of world's exports (ranked 13th in world's import trade and accounted for 2.1 percent of the volume of world's imports). China has become an important force that influences the world market.

Then, what kind of role does China's agriculture play in foreign trade?

If we look back at China's production and trade in agriculture, it is not difficult to discover that China's agriculture has created a miracle of being able to feed 22 percent of the world's entire population with only 7 percent of the world's arable land. Particularly in the 1980's, the annual rate of growth of our major farm products had invariably exceeded that in the world (marking a two-fold increase over the world average in the production of cotton, sugarcane, tobacco, pork, beef and mutton). With the exception of beet, China is among the world's top four nations in producing major farm products.

Meanwhile, developments have also been duly made in trading for China's agricultural products. The total export value of China's farm produce and its processed products was US\$8.816 billion in 1980. It reached US\$20.139 billion in 1989, an increase of 128.4 percent (as indicated in table I). The export value of farm produce accounted for 40 to 50 percent of the total value of exports in China. Since the middle of the 1980's, China's trade surplus in farm produce has rapidly increased. China's trade surplus in farm produce was US\$2.697 billion in 1985, but its overall trade deficit was 14.902 billion yuan [as received]. The trade surplus in farm produce made up 18.1 percent of the total trade deficit in that year. In 1991, China's trade surplus in farm produce rose to US\$3.89 billion, and its overall trade surplus which cover both imports and exports was US\$8.12 billion with the trade surplus in agricultural products making up nearly 48 percent. That is to say that nearly half of China's trade surplus comes from farm produce. In addition, according to an estimate made by the U.N. Food and Agriculture Organization, China ranked eighth in the world in terms of the value of its farm produce exports and 10th in the world in terms of the value of its farm produce imports. Therefore, China's agriculture not only occupies a decisive position in its own domestic economy, it has also become a strong competitor in the eyes of its trade partners.

Table 1—Foreign Trade in China's Agriculture: Unit US\$100 million

	Total Export Volume	Farm Products		Processed Farm Products		Farm Produce and Processed Farm Products	
		Export Volume	Share of Total Export Volume[%]	Export Volume	Share of Total Export Volume [%]		
1980	182.72	34.19	18.7	53.97	29.5	88.16	48.25
1981	208.93	36.81	17.6	54.62	26.2	91.43	43.76
1982	218.19	32.43	14.9	53.61	24.6	86.04	39.43
1983	221.97	35.29	15.9	59.20	26.7	94.49	42.57
1984	244.16	41.20	16.9	67.16	27.5	108.36	44.38
1985	259.15	45.32	17.5	69.68	26.9	115.00	44.38
1986	270.14	52.02	19.3	84.72	31.3	136.74	50.62
1987	347.11	58.78	16.9	104.60	30.2	163.38	47.07
1988	406.40	69.54	17.1	121.87	30.0	191.41	47.10
1989	434.40	66.11	15.2	135.28	31.2	201.39	46.36
1990	520.67	67.64	13.0	151.85	29.2	219.49	42.16

Source of the Reference Material: Ministry of Foreign Economic Relations and Trade 1991

If we carry out further analysis, we may describe the basic features of China's foreign trade in agriculture from the angle of commodity and market structure.

First of all, let us look at the special feature of commodity structure. If we do not make strict classifications, we may roughly classify China's farm products for export as follows:

1. Grain and oil-bearing products. This is often called the staple trade products such as rice, wheat, coarse grain (millet, barley and sorghum), soybean, peanut and other oil-bearing seeds and vegetable oil for cooking.
2. Traditional products such as natural silk and tea.
3. Cotton and hemp products. That means products made of cotton and hemp or flax.
4. Products with high added value which are also called processed farm products (or processed products from farm produce) such as beverage, canned food and so on.
5. High-priced products such as aquatic products, animal products, horticultural products (fruits, vegetable and flowers), dried fruits and bean meal.

From Tables I and II, we can understand: 1) China's major export products are roughly divided into three categories. They are traditional products (natural silk and tea); products with high added value (mainly canned goods and other processed farm products) and aquatic products, animal products, vegetable, fruits and other

high-priced products, the market share of which is negligible. Particularly from Table I, we can see that in the farm products for export, the share of processed farm products (or processed products from farm produce) rose from 61.2 percent in 1980 to 69.2 percent in 1990 (it should be explained that the processed products from farm produce in Table I actually includes the products with high added value as well as a large amount of high-priced products when the statistics were compiled). On the contrary, the volume of imports of these products was small. It totaled \$250 million in 1989. From this we can see that products with high added value and high-priced products are China's major products in expanding its foreign trade in agriculture. The share of the grain and oil-bearing crops in the total volume of exports dropped from 33 percent in 1980 to 21.9 percent in 1989. This actually means that it is difficult for the grain and oil-bearing crops which affect the national economy and the people's livelihood to become a dominant part of China's exports in agriculture. 2) Log, wool and grain and sugar-bearing products are the main farm products that China imports. Particularly the export volume of grain and oil and sugar-bearing products only amounted to \$2.927 billion in 1980, but it reached \$4.192 in 1989, marking an increase of 43.2 percent. In addition, the difference (trade deficit) is also continuously rising. The trade deficit was US\$1.54 billion in 1980, but it reached \$2.28 billion in 1989. With the expansion of China's population and the growth of its economy, this gap will be further widened.



Table II—Imports and Exports of China's Major Farm Products; Unit: \$100 million

Farm Products	1989		1990		1991	
	Exports	Imports	Exports	Imports	Exports	Imports
Grain(1)	10.19	29.91	11.92	23.53	15.81	16.43
Aquatic Products(2)	13.16	-	9.92	-	10.96	-
Animal Products(3)	8.63	-	7.04	-	8.98	-
Canned Goods(4)	6.81	-	6.74	-	7.88	-
Vegetable(5)	5.78	-	5.24	-	6.7	-
Fruits(6)	1.03	-	1.09	-	0.79	-
Edible Oil-Bearing Seeds	3.52	-	2.48	-	4.48	-
Cooking Vegetable Oil	-	4.98	-	5.28	-	2.89
Cotton	3.01	7.09	4.31	7.11	3.61	6.31
Tea	4.13	-	4.04	-	3.76	-
Natural Silk	3.62	-	5.27	-	3.37	-
Sugar	2.3	4.3	1.61	3.79	1.21	2.56
Wool	-	5.35	-	1.46	-	3.5
Log	-	5.9	-	4.61	-	4.54

Notes: (1) grain, wheat, flour, rice, millet, soybean and others. (2) aquatic products, live fish, frozen fish, fresh fish slices, frozen prawn and others. (3) Animal products: live hogs (except breeding swine), live poultry, frozen beef and pork, frozen chicken, frozen rabbit meat and eggs. (4) Canned goods: pork, vegetable, fruits and others. (5) Vegetable: fresh vegetable, dried mushroom, edible tree fungus and others.

Source of Reference Material: General Administration of Customs, 1991 and 1992

With regard to the special feature of the market structure, China's markets for the import and export of farm products are relatively centralized. For example, China's export markets are mainly in Hong Kong, European Community, the United States, the former Soviet Union and other nations and regions; while its import markets are mainly in the United States, Canada, Australia, European Community, Malaysia, Japan and other nations and regions. Markets for products for agricultural development are mainly in Japan, European Community, the United States, Hong Kong, the former Soviet Union and other nations and regions.

Furthermore, most of China's trade partners in farm products are in areas around the Pacific Ocean. Incomplete statistics show that China's farm produce trade with its trade partners in areas around the Pacific Ocean accounts for approximately 70 percent of its total trade volume in farm products since 1980's. To these nations and areas, China mainly exports grain, poultry, beverage and tobacco products. For example, China's main export products to Hong Kong and Australia are rice, vegetable, fruits, frozen meat and others; those to Japan are millet, prawns, soybean and canned goods; those to the United States are large quantity of farm and animal products as well as prawns, canned goods, tea, vegetable, fruits and beverage; those to the former Soviet Union (mainly the eastern region) are millet, soybean and animal products. Meanwhile, China imports lumber, cotton, vegetable oil and grain from the United States, Canada, Australia, Thailand, Malaysia, Singapore, New Zealand and the former Soviet Union. For example, from the United States and Canada, China mainly imports wheat (the share of wheat imports from these two

nations amounted to 32.2 percent and 33.6 percent respectively in 1990; and the U.S. share of wheat import reached 55.6 percent in 1989). China imports vegetable oil from Singapore; palm oil from Malaysia; and soybean oil from Australia and the United States. However, China mainly imports lumber from the United States, the former Soviet Union, New Zealand and Canada.

In addition, Europe (particularly the European Community) is also China's major market for the import and export of its farm products. Many of our products with high added value and high-priced products are exported to the European Community, while we also import grain as well as products for agricultural development from the European market.

In view of all this, we believe: 1) Contribution to China's foreign exchange from the agricultural sector will not drop in the near future (at least in the 1990's). On the contrary, with the readjustment of the export structure in farm products and the increase of the exports of products with high added value and high-priced goods, our trade surplus in agriculture will remain an important source for our foreign exchange. 2) Most of our trade partners highly protect their own agricultural sectors, while we are much less protective. If GATT's Uruguay Round reforms the current increasingly protective multi-lateral trade system, it would depend on our policy on agriculture to determine whether our agricultural sector is able to survive in the course of promoting trade liberalization in agriculture. 3) It is possible that China would expand its imports of grain and other farm products. This means that it will be impossible for us not to join the world market for farm products. Apparently this will also become a new challenge to us.

## II. Impact of China's Re-Entry Into GATT on Its Agriculture

In order to understand the basic relations between China's agriculture and the world market, we make the following hypotheses:

1. An agreement is reached at the Uruguay Round of negotiations to reduce agricultural subsidy by 30 percent, the world trade in agriculture will be liberalized to a certain extent.

2. China resumes its legitimate status in GATT. That is to say that China's agriculture has been placed in the international multi-lateral trade system and that its relevant trade structure has been duly adjusted and its tariffs for imported farm products have been reduced to meet GATT requirements.

3. Due to requirements to ensure grain production and the progress in reforming its domestic structure, China has not yet basically readjusted its policy on agriculture. Therefore, the Chinese Government still carries out negative protection measures. Some products that need to be imported such as vegetable oil for cooking and cotton will become less protected because of the reduction of customs duties. However, with the change of the economic structure, the domestic market will be regulated by the market mechanism. Thus, the price on the world market can directly affect the domestic market.

4. The farm products discussed in this article are limited to major grain and oil-bearing products, animal products, cotton and sugar. Limited by conditions in carrying out research work, we are unable to make quantitative analysis on other farm products such as those with high added value and high-priced farm produce. For those products, we can only make a general inference.

5. We conduct our research work within the time range between 1986 and 1990. All the data compiled are based on 1986 figures.

Therefore, the results of our research work can only be used as a reference for the purpose of policy readjustment. It does not mean that things may actually happen in such a way. The results of our simulation only show the possible impact on China's domestic market after trade liberalization in agricultural products. On the other hand, China's domestic market is actually one with shortcomings. Thus, our appraisal on the relation between China's imperfect domestic farm produce

market and the world market reflects only the short-term impact to the agricultural sector from China's readmission into GATT.

Under the influence of China's existing policies, it would be entirely possible for the fluctuations on the world market created by the trade liberalization of farm products to affect the domestic market in China. Apparently the market mechanism will also duly regulate the domestic market, if we presume that our market has been well developed. On the basis of the results of our simulations, the major impact on China's agriculture will be felt in the following aspects:

1. There may be changes of varying degrees in prices on the domestic market and in supply and demand. Due to the price increases on the world market, the price of some major farm products on China's domestic market may also rise. Rice will witness the largest increase by 48.96 percent, followed by 46.18 percent in sugar, beef (22.04 percent), coarse grain (excluding millet) (20.74 percent), millet (10.05 percent), soybean (9.87 percent), wheat (8.89 percent), pork (5.15 percent), cotton (5.12 percent) and poultry meat (1.97 percent). However, with the drop in price on the world market, the price of vegetable oil on the domestic market will decline. For example, the prices of oil-bearing seeds such as peanut, sesame and rape seeds will drop by 6.67 percent, those of soybean oil by 4.09 percent and those of other vegetable oil by 1.54 percent.

Meanwhile, the relation between supply and demand of China's major farm products will be duly adjusted because of price changes (See Table III). For example, the supply of animal products will increase, but the demand for such products drop because of the increase of market price. Among the grain crops, the supply of wheat will drop slightly and the demand for wheat will remain the same. There will be no changes in the supply of millet and rice, but the demand for millet and rice will drop slightly. The production of coarse grain, soybean, cotton and sugar will increase, but the demand for such products will decline.

2. Due to the fact that some of China's trade partners have become less protective, China will be able to export more farm products. For example, our export of pork and poultry meat is expected to increase by 10.92 percent and 7.5 percent respectively, and that of rice, soybean and cotton by 2.6 percent, 0.46 percent and 1.1 percent respectively. Only our export of oil-bearing seeds such as peanut will drop by 1.1 percent. That is to say that we will be able to take over the share of the export market formerly occupied by developed countries.

Table III Range of Changes in Supply and Demand of Farm Products in China

	Increase (+) or Decrease (-) of Supplies in percentage	Increase (+) or Decrease (-) of Demand in percentage
pork	0.08	-0.07
poultry meat	0.48	0.36
wheat	-0	0
millet	0	-0
other coarse grain	0.01	-0.01
rice	0	-0
soybean	0.01	-0.04
soybean oil	-0.03	0.6
other oil-bearing seeds	-0	0.02
other vegetable oil for cooking	0.18	0.12
cotton	0.08	-0.09
sugar	0.14	-0.37

Note: "-0" in the table means a slight decrease.

Among the farm products to be imported, the volume of wheat imports is expected to increase slightly. The import of soybean oil will be increased by 7.8 percent, while that of sugar and other vegetable oil will be reduced by 3.3 percent and 0.9 percent respectively.

3. The world market price increases caused by the reform in agricultural trading may help China increase its revenue by exporting more farm products. However, it will also cost China more foreign exchange in importing a large quantity of grain and oil-bearing crops. Let us take wheat as an example. Every year, China imports 10 to 15 million tons of wheat. In the last few years, it imported about 12 to 13 million tons. If we do not take into consideration the factor that our wheat import may slightly increase after China's readmission into GATT, the 8.34 percent wheat price increase in the world caused by trade liberalization in agricultural products would mean an extra 8.34 percent higher payment for China for its wheat imports. If we estimate that China imports 12 million tons of wheat every year at the Cost and Freight value of US\$150 per ton, China needs to pay \$50 million more in foreign exchange for wheat imports each year. That is the price equivalent to one million tons of wheat before China's re-entry into GATT.

From this, we can see that from a purely theoretical point of view, the trade liberalization of some farm products in the world achieved by the Uruguay Round may help China increase its exports of certain farm products and reduce its imports, but it may also increase China's foreign exchange outlays in importing wheat. Thus, we can see that China's readmission into GATT is beneficial to China's agricultural sector on a long-term basis. Naturally it is only a theoretical hypothesis. If we consider the existing shortcomings in our market at present in close connection with the realistic economic environment in China, it is not difficult for us to discover that things are not so simple. 1) When we make a quantitative analysis, we presume that the world price changes would fully affect the domestic market, but actually the irrational pricing system and the

negative protection policy on farm products in China will prevent the world price from affecting China's domestic market. That is to say that the world price increase caused by the trade liberalization in farm products is unable to effectively bring about a rapid growth in the supply of relevant products in China. Even if the price changes on the world market can stimulate the export of farm products in China, the domestic supply will not be duly increased as long as there are no basic changes in the policy which is unfavorable to the agricultural sector. The result is that on the one hand, economic and population growth demands more farm products, while on the other hand, the supply of such products dwindles because of the increase in exports, causing imbalance between supply and demand or a shortage in supply. 2) We mainly protect our domestic market in two forms. One is border protection, while the other is our low price structure. While we impose relatively lower tariff rates on grain, logs and cotton, we levy fairly higher customs duties on other farm produce and processed farm products, ranging from 50 and 70 percent in order to protect our own farm products. Our tariffs for some products are as high as 150 to 180 percent. In addition, we also restrict the entry of foreign farm products into China by means of nontariff barriers. However, after China's readmission into GATT, we need to reduce tariffs, and abolish our nontariff barriers. Relatively speaking, border protection will lose its effectiveness. At the same time, our superiority achieved by lowering the prices of a large number of our farm products below those on the world market by the use of our negative protection policy for many years will gradually disappear with the increasingly higher production costs for farm products (the production cost for major grain crops is expected to rise at more than 10 percent each year) and with the gradual change in our policy on agriculture. Particularly as our market for farm products develops, there is a tendency that the prices of our farm products will approach or exceed those on the world market. Thus, our domestic market for farm products which loses the traditional protection will face formidable challenge. Especially when we make our



estimate, we presume that the farm products in various countries are of the "same quality" as our own farm products. We have not given full consideration to the difference in quality. Actually, many of our farm products (such as rice) are not very competitive on the world market in terms of quality. Therefore, after China's readmission into GATT, a large amount of lower-priced, high quality farm products from many of our trade partners such as rubber, sugar, tobacco, lumber, soybean, dairy products, tropical fruits and other grain products will batter our domestic market. If we do not adopt relative protective measures, the production of these products at home will shrink under the attack of foreign products and make China's agriculture problems even more complicated.

From the aforementioned analysis, it is not difficult for us to draw the following conclusions:

1. After the restoration of China's legal status as a signatory state to GATT, our agriculture will enjoy the benefits from international division of labor. However, we must also face the challenge of international competition. Judging from the trend in liberalizing trade in agriculture, we believe that when we open our domestic market to the world, the pressure from international competition will probably be greater than the benefits we acquire within a short period due to the shortcomings of our own domestic market. As our domestic market develops, however, China's agriculture in the long run would reap benefits through competition with other nations.
2. From the aforementioned analysis on basic trade relations, we have come to realize that after re-entering GATT and joining the multi-lateral trade system, we have the necessary commitments as a member of the international community, while enjoying the rights and benefits. However, agriculture should not become something that we should sacrifice in order to protect other industries. We may promise to readjust and reform our trade policy on farm products, and open our domestic market in accordance with the agreement on farm produce reached at the Uruguay Round of negotiations, but we still have to realize that we must adhere to the policy of negative protection for our agricultural sector. Such policy remains incompatible with the policies of most of our trade partners around the Pacific Ocean Region and Europe.
3. If we give full consideration to ensuring the supply of grain for our 1.2 billion population and the income of nearly 900 million peasants, what we need is perhaps more protection for our agriculture instead of blindly opening up our market. Perhaps we can say that in an open economic environment, we should provide our agricultural sector the kind of effective protection that conforms with international multi-lateral discipline.
1. During the 1990's, China still has to rely on the healthy development of its agriculture in realizing a sustained economic growth. Therefore, as seen from the economic environment in China, we must change our policy on agriculture and make the best use of our agricultural resources in order to open vast vistas for the further development of agriculture. Our policy on agriculture should be able to bring about a sustained and steady agricultural development.
2. Agriculture is closely related with macro-economy. In formulating our macro-economic policy, we must once again study the environment at home and abroad and choose something new which will produce a great impact on agriculture.
3. The trend in liberalizing trading on farm products in the world has, on the one hand, provided China with a great opportunity to increase its exports, while on the other hand, it makes China's domestic market face the challenge from international competitors. It means that we must have a trade policy on farm products, which is able to keep pace with the changes in the international economic environment.
4. Our experience in international domestic developments has already substantiated that our agricultural sector needs the protection and support of the government, not any discrimination. The problem is that before we take any action to protect our agriculture, we have been asked to fulfill the general commitments as a GATT signatory state. It means that our policy on trade and agriculture must conform to the standard and be effective.

Obviously only by comprehensively readjusting our existing trade policy on farm products will it be possible to satisfy the requirements in stimulating our national economy while conforming with the international multi-lateral trade system. Particularly in readjusting our existing policy, we must prevent our policies and measures from contradicting and counteracting against each other just like what happened in the past when we tried to achieve many goals at the same time. In addition, we believe that in readjusting our policy we must proceed from the following two basis points: a) Ensure the supply of grain for our 1.2 billion population. b) We must ensure the steady growth of income of the nearly 900 million peasants in China.

Therefore, in order to protect China's agriculture, our basic tasks should be as follows:

1. Readjust policy in determining market prices for farm products, gradually change the trend in discriminating against agriculture.
- a) In our domestic policy, we must set up a guaranteed price system for our major farm products. The guaranteed price system should be mainly composed of target prices of farm products, the lowest protective prices and relevant auxiliary policies (such as the reserve system for farm products and subsidy on the basis of price differences). Although the Uruguay Round of negotiations has

### III. Protection for China's Agricultural Sector

In accordance with the analysis in this article, China's agricultural sector, after it joins the international multi-lateral trade system, is faced with the following new choices:

clearly indicated the need to cut back this kind of domestic support measures (Developed nations must reduce such measures by 13.3 percent in the next 10 years), we are a big developing country in which we have not yet set up a complete system for such support measures, and we have the problem of ensuring the supply of grain to our 1.2 billion population. We have every reason to go through negotiations to seek support from all sides and make full use of all relevant GATT rules and regulations to gradually set up such a system. What merits attention is the fact that GATT allows a government to provide subsidies to build up a grain reserve for emergency. Therefore, how to design the guaranteed price system in such a way that it will not touch off reproaches from our trade partners while it can still effectively support our price structure is something that we must further study.

b) Border measures. In accordance with the requirements of the GATT Uruguay Round, we must mainly open our domestic market, cut back tariffs and reduce subsidies to exports with the aim to readjust border measures. As far as China is concerned, border measures should play an even greater role in protecting farm products on the domestic market when our nation is opening up to the outside world. a) We must design a rational structure for our tariff rates. We may adequately reduce the tariffs on some products (mainly unprocessed products such as cotton, wool and others), while imposing reasonable customs duties on other products (mainly processed products such as vegetable oil for cooking and others). As for some grain and other products which will pound away at our domestic market and affect our national economy and the people's livelihood, we should levy import duties in a planned manner. b) We should make full use of GATT regulations on exceptional cases aimed at protecting a nation's own farm products to set up effective nontariff barriers. Although GATT generally forbids nontariff barriers, it has some provisions on exceptional cases for the protection of a nation's own farm products by allowing the nation to impose restrictions on the amount of farm products to be imported and permitting the use of waivers and so on. All these provisions can be used, if necessary, to protect our farm products and help stabilize the price on our domestic market. Particularly China can make use of these GATT provisions to control, in a planned manner, the import of those farm produce as well as products for the development of agriculture, which would greatly affect our national economy, such as grain, chemical fertilizer and cotton.

## **2. Strengthen support measures for agricultural income.**

According to international practice, there are two types of agricultural income support—direct one and indirect one. Direct income support measures are direct income subsidies to peasants such as disaster subsidy, price difference subsidy and farm produce reserve subsidy and so on. The agricultural tax belongs to the category of income policy. It is only a reversal support measure. The indirect income support

measures are mainly agricultural preferential and interest-subsidy loans (The state pays bank interest in a form of subsidy) and subsidies in the form of fuel, chemical fertilizer, pesticide and transportation, agricultural insurance plan and farm produce reserve system. When GATT stresses the need to reduce interferences in domestic prices and to open up the domestic market, it is nevertheless more lenient in dealing with income support policies. For example, the Uruguay Round of negotiations on agriculture has not banned subsidies aimed at helping a nation to keep a certain amount of grain reserve in stock for emergency, domestic grain consumption subsidies, disaster subsidies, income security plans, agricultural insurance plans, and other income support schemes. Therefore, we can stabilize our agricultural development and raise peasants' income by strengthening our income support measures. Particularly, we may use income support measures such as the farm produce reserve system, agricultural insurance policies and disaster subsidies in close connection with our guaranteed price policy to form an effective protection mechanism. In addition, we may also control the prices of products needed to develop agriculture and keep the prices stable at a certain level in order to lower the production costs of farm products and protect farmers' income. This method can also be used to ensure that our guaranteed price system will not clash with GATT requirements.

## **3. Readjust policy for long-term agricultural development and macro-economic policy**

a) Policy for long-term agricultural development. GATT does not restrict any government to make investments or provide subsidies to the agricultural sector for doing research, popularizing agro-technology, pest control, structural readjustment, and protection of environment and natural resources. Thus, we can continue to implement our agricultural investment policy in the past, and even increase the value of our investments in this connection. We may expand our services for farming and try to increase China's competitiveness in agriculture.

b) Macroeconomic policy. In order to meet the requirements in changing our policy on agriculture, we must give full consideration to the realities in opening our agricultural sector to the outside world and readjust our relevant policies in financial affairs and on our rate of exchange so that they would conform with international practice. For example, we may need to further adjust our rate of exchange to make our farm products more competitive on the world market.

What we discuss here is the frame wherein we adjust our policy to protect our agriculture. To establish a set of policies for the protection of agriculture, which can be used to effectively protect agricultural production and income, we still need to further study and explore ways and means. Particularly, the GATT multi-lateral negotiations are complicated and confusing, and no conclusions can be drawn. This has made our studies even more difficult than ever before. Anyway, we simply cannot wait any longer to change our agricultural policy in protection of agriculture in China.

**Future Chemical Fertilizer Needs**

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[Article by Liu Huan (0491 2970): "Development of the Fertilizer Industry Must Keep Pace With Agriculture"]

[Excerpt] [passage omitted] The fertilizer industry must continue, for some time to come, to serve agricultural development, and in its steady development, supported by state policy, it must mainly take the following measures:

1. To realize the targets set by the State Council, to expand the capacity for chemical fertilizer production by 1995 to 120 to 130 million tons, the additional chemical fertilizer production facilities to be provided during the Eighth Five-Year Plan must be of the scale of 33 million tons, with an actually completed capacity of 20 million tons. The 125 million tons of chemical fertilizer capacity to be reached by the year 1995 shall be composed of 92.24 million tons of nitrogen fertilizer, 32.34 million tons of phosphorus fertilizer, and 420,000 tons of potassium fertilizer. In this way, domestically produced chemical fertilizer will basically meet the requirements of agriculture, with the exception of some shortage in potassium fertilizer.

2. Attention must be paid to perfecting the adjustment of the various types of fertilizer to be produced, to improving the effective ingredients in the fertilizers produced, to speeding up the development of compound fertilizers, to energetically striving to raise the proportion of urea in the nitrogen fertilizer from the present 35 percent to as high as 50 percent, and to the further improvement of the ratio as between the nitrogen, phosphorus, and potassium in the fertilizer produced.

3. Major effort must be devoted to the development of mixed fertilizer and fertilizer for special applications. As far as state finances and resources permit, large-scale nitrogen fertilizer plants should be built at Fuling, Hejiang, Jinxi, in Inner Mongolia, at Weinan, Jiujiang, Jilin, Dalian, Nanjing, and Dongting. Large-scale compound fertilizer plants should be built at Luzhai, Jining, Xuanhua, and Tongling. Some existing fertilizer plants should be transformed and expanded, and work must be continued to adjust types of fertilizer produced by small fertilizer plants and with respect to energy-saving transformations.

4. Mines should be protected and supported, so as to have a solid foundation for the development of chemical fertilizer. Mines are the foundation for the development of chemical fertilizer production. According to the needs of chemical fertilizer development, by 1995 the production of phosphate mines should reach 22 million tons, and the production from ferrous sulphate mines should reach 18 million tons. By the end of 1995, the scope of phosphate rock mines is to be 16 million tons, ferrous sulphate mines 9.2 million tons, potassium production capacity is to increase from 270,000 tons to 1.07 million tons. We should establish some large- and medium-scale key mines, for instance, at Dagukou, Huanglingling,

Yunnan, Wengfu, and Yunfu, and build them up into five large bases with an integration of mining and fertilizer production and integration of mining and chemical production.

5. Greater attention must be paid to the use of domestic and foreign resources, and foreign capital should be used to an increased scale. We must do a good job in all our domestic work, strive to attract foreign capital, build up and transform some chemical fertilizer enterprises, raise technology and management levels, and gradually achieve economy in scale.

The state must give the same assurances and apply the same favorable policies to the development of the chemical fertilizer industry as it is giving to the development of agriculture. The present system of having only the enterprises support agriculture must not be allowed to continue.

For many years, prices for chemical fertilizer were restricted by the purchasing power of the peasants. It was a product sold at cost plus a very slight profit, and fertilizer enterprises had to bear a heavy burden to support agriculture. In 1992, sales receipts of state-owned fertilizer enterprises were 33.11 billion yuan, which yielded a profit of only 1 billion yuan, or only 3 percent of the sales receipts. Chemical fertilizer enterprises throughout the country employ 1.2 million persons, and these created a per capita profit of only 833 yuan. At present, the production and management of chemical fertilizer are facing a difficult situation, as they incur serious losses. Because of the steep increases in the prices of coal, electric power, gas, and petroleum, consumed in the production of chemical fertilizer, and the increased shipping charges, economic returns of chemical fertilizer enterprises are declining almost daily, and they incur heavy losses; many of these enterprises will not be able to survive. It is an emergency situation for all medium-sized enterprises producing nitrogen fertilizer, and the effects are felt by the entire society. The various price increases seriously affect production of phosphorus fertilizer, and the production of concentrated composite-phosphorus fertilizer has recently completely ceased. Small chemical fertilizer enterprises are too weak to stand the price increases in their raw and semifinished materials; they are suffering serious losses. Imports of chemical fertilizer have become excessive, and this too adversely affected domestic production of chemical fertilizer and endangers the existence of chemical fertilizer enterprises. This year, prices for coal, heavy oil, electric power and transportation will again gradually go up, resulting in losses for the entire chemical fertilizer trade.

For effective support of agricultural developments by the chemical fertilizer industry, and to ensure the survival and sound development of the chemical fertilizer industry, there are evidently at present still several problems that must be thoroughly studied and resolved:

1. Development of the agrochemical industry, including the chemical fertilizer industry, must be given the same



serious attention as is being given to agriculture, and should enjoy the same favorable and supportive state policies.

For the support of agriculture, it has been the practice for a long time to have the chemical fertilizer enterprises charge prices on the principle of "cost plus very slight profits." With the gradual establishment of the market economy system, the reform of the pricing system has progressed rapidly. Especially in the areas of energy and transportation, prices increased at a very high rate during the last few years, while prices for chemical fertilizer have all along been maintained at a very low level. As a result, chemical fertilizer enterprises now find it difficult to even cover costs; most of them incur losses. Under these conditions, the state and governments at all levels should rank chemical fertilizer production as on the same level of importance as agricultural production. The series of favorable policies already being enjoyed in support of chemical fertilizer production with regard to prices, taxation, credits, etc., must not be abolished. Preferential prices for coal, coke, electricity, natural gas, petroleum, and transportation, especially prices for electricity and transportation, as used in the production of chemical fertilizer, should be kept steady at the average 1992 price levels. It is necessary to adopt supportive policies, to relieve the difficulties of the chemical fertilizer enterprises. It is suggested to exempt middle-sized nitrogen and phosphate fertilizer factories from product tax, reduce income tax to half, and not to levy contributions to the funds for key energy and transport projects, and to the budget reconciliation fund, to lighten the burden of the chemical fertilizer enterprises.

2. The practice of having support for agriculture come only from the agrochemical industry must be fundamentally changed.

Support for agricultural production is not merely the sole concern of one particular line of trade or of certain particular enterprises, but must rather be a concern of the state and a concern of all trades and enterprises throughout the country. At present, China is at the critical transitional stage of moving from planned economy to market economy and must, as soon as possible, espouse the concept of long-term support for agriculture by the state and by all trades and enterprises. Otherwise, speaking of serious attention to agricultural production is empty talk, and sound development of agricultural production is impossible. In concrete terms, there is a problem here in that due to the increase in the prices for raw and semifinished materials, fuel, and transport, production costs of chemical fertilizer have gone up, while producing enterprises are bound by ceiling prices and are incurring losses. This problem must be solved by reducing taxes or profits to be turned over by the enterprises, or exempting them from such altogether, or by financial subsidies. It is at the same time necessary to set ceiling prices for energy and transportation costs used in the production of chemical fertilizer in line with the ceiling prices set for chemical

fertilizer, on the premise of ensuring cost and a slight profit for the production of chemical fertilizer.

3. A policy must be established for long-term support of the chemical fertilizer industry.

Judging by the present trend of economic development, this situation of the chemical fertilizer industry sustaining losses will possibly continue, as a fundamental turn for the better cannot be achieved in a short time. The state should therefore consider a supportive policy of granting long-term subsidies to the agrochemical industries, of which the chemical fertilizer industry is representative, to ensure survival and development of China's chemical fertilizer industry.

4. During the Eighth Five-Year Plan period, it is necessary to continue to allocate special-purpose funds mainly for the support of transformations and expansions of medium- and small-sized chemical fertilizer plants.

To ensure better performance in the chemical fertilizer industry, the state has decided to continue during the period of the Eighth Five-Year Plan to allocate 6.5 billion yuan of special-purpose funds to be used for the transformation and expansion of medium- and small-sized chemical fertilizer plants. In addition to having the state continue the relevant favorable policies of the Seventh Five-Year Plan, it is suggested that the following favorable treatment be granted in connection with the 6.5 billion special-purpose funds during the period of the Eighth Five-Year Plan: Payment of interests discounted from loans be extended from two to five years, exemption from product tax, local surcharges be delayed from two years to five years, exemption from fees for the local accumulation for electrification, and exemption from the "liang jin" [0357 6855] imposition for five years after completion of project. Projects for the opening of small ferrous sulphate mines should be granted even more favorable conditions.

5. More loans must be granted to new construction or technological transformation projects of the agrochemical industry, including the chemical fertilizer industry.

Because of insufficient investment in the continuation of agrochemical projects, work cannot start on some new technological transformation projects in the agrochemical industry. Next year and the following year will be the peak time of fund requirements for the transformation projects of small chemical fertilizer plants. Work should also be started up in a number of new projects. It is hoped that the state will grant more loans, so as not to adversely affect the logistic support for the development of the agrochemical industry, due to insufficient funds.

6. It is necessary to strictly control the volume of chemical fertilizer imports and to rationally adjust the types of imports.

China has a substantial capacity for the production of nitrogen fertilizer, and supplies should be centrally coordinated by the state. The total volume of imported

chemical fertilizer should be strictly controlled through quantitative allocations. Control of chemical fertilizer imports through border trade must be particularly stepped up. China is still very short of compound and potassium fertilizer, and these must in future be the main types of chemical fertilizer imports. The principle in importing chemical fertilizer must be to satisfy the requirements of agricultural production. The particular types and quantities must be determined in consultations between the agriculture, chemical industry, and foreign trade departments. This will become an even more important point after China "rejoins GATT."

It is suggested that in 1993 the amount of chemical fertilizer to be imported through foreign exchange allocations by the central authorities be reduced to 10 million tons (converted to standard tons). It is also suggested that all kinds of subsidies for imported chemical fertilizer be abolished, to lighten the burden on the state's finances.

### Hebei Explains Farm Taxes

94CE0028A Shijiazhuang HEBEI RIBAO in Chinese  
1 Sep 93 p 1

[Article by Hebei Finance Department affiliates Gao Jiuchang (7559 0036 7022), Song Ligen (1345 4539 2704), and Pan Jianguo (3382 1696 0948): "Control of Policy, Conscientious Payment, and Strict Collection—Brief Explanation of Farming, Forestry, and Specialty Product Taxes"]

[Text] [Editor's note] The State Council has decided to reduce the tax rates on some farming, forestry, and specialty products [FFSP] beginning in 1993, but the collection task assigned to Hebei by the state has certainly increased in relation to 1992, and Hebei has also removed all FFSP tax checkpoints along highways. This "one reduction, one increase, and one removal" has brought great difficulties to FFSP tax collections. Meanwhile, as the reduction in FFSP tax rates is occurring under repeated state emphasis on lightening peasant burdens, whether the tax-rate reduction will actually lighten peasant burdens is a matter of concern to all peasants. To help all farmers to fully and accurately understand this FFSP tax collection policy, so that we can complete Hebei's FFSP tax collection task, we are here providing a brief explanation of the key aim of the tax adjustment, its impact on the lightening of peasant burdens, and the state's basic FFSP tax collection policy. [end editor's note]

### The Key Aim of Tax-Rate Reduction—To Close Up the Nominal Tax Rate With the Actual Burden Rate

Hebei began full collection of FFSP taxes in 1989. These four years of practice show that the FFSP tax rates set in 1989 were too high, putting the Hebei tax rate on apples, pears, grapes, peaches, and haws all at 15 percent.

To be objective about it, as China's tax system is still not in order, with all price relations not too rational, agricultural capital goods prices high, and some FFSP prices too low, a 15-percent tax rate is not very in line with the incomes of most FFSP producers, being a little too high. Actual collections cannot live up to this rate, meaning that taxable output is forced down and taxable value is reduced, with the apparently enforced 15-percent tax rate leaving the actual burden rate very low. Statistics from the relevant departments for 1992 show that Hebei had a gross output of 2.6 billion kg of fresh and dried fruit with an annual output value of 4 billion yuan, meaning that at an average tax rate of 10 percent minus reductions and exemptions, we should have collected at least 300 million yuan in FFSP taxes, while we actually collected only 96.32 million yuan, leaving the actual burden rate at only around 3 percent, and a great gap between the nominal tax rate and the actual burden rate. Thus, in order to close up the nominal tax rate with the actual burden rate, the state has reduced some FFSP tax rates. While the tax rates have been lowered, the state's collection task assigned to Hebei is still up 60 percent from 1992. But as Hebei has vast tax sources, with real collection potential, there are prospects that we will still be able to complete our 1993 collection task unless there is a large-scale natural disaster.

### There Is Not Necessarily a Link Between the Tax-Rate Reduction and the Lightening of Peasant Burdens

The line between state tax policy and irrational peasant burdens is quite clear. Lightening peasant burdens refers mainly to lightening irrational peasant burdens, or lightening charges that state policy provides are not to be put on peasants. So the FFSP tax-rate reduction is not in the category of lightening peasant burdens.

Peasant burdens come in the two categories of tax burdens and nontax burdens. While the tax burden is a duty that should be carried out by every citizen, the state makes provisions about nontax burdens, which peasants can rely on to pay the proper charges. The current state proposal to lighten peasant burdens means lightening mainly nontax burdens. Hebei's peasant tax burden is certainly not heavy, with 380 million yuan in farm and FFSP taxes having been collected throughout Hebei in 1992, or only 6 yuan per capita, while the nontax burden reached a high of 2.7 billion yuan, or 43 yuan per capita, and seven times the amount of farm and FFSP taxes. So lightening peasant burdens means certainly not lightening proper peasant tax payments, but rather lightening irrational peasant burdens. Of the many peasant burdens put an end to since the beginning of 1993 from the center to localities, not one was a tax burden.

### The Major Provisions of Hebei's Current FFSP Tax-Collection

**Tax payment targets.** The state provides that all who engage in FFSP production and earn FFSP income in China must pay FFSP taxes. Hebei collections can be summed up in 11 categories by income: 1) fruit; 2) dried

fruit; 3) fruit melons; 4) flowers and plants; 5) Nursery stock; 6) medicinal materials; 7) aquatic products; 8) aquatic plants; 9) lumber; 10) edible fungi; 11) other products. No one may decide without authorization and provincial government approval to collect FFSP taxes on any product.

**Taxpayers.** FFSP taxpayers refers to units and individuals that earn FFSP income directly from FFSP production. In Hebei, this particularly means units and individuals in the following five main categories: 1) village committees and village groups engaged in FFSP production; 2) units and individuals that contract FFSP production; 3) cooperative economic organizations engaged in FFSP production management; 4) all types of enterprise and institutional units operating or jointly operating FFSP production; 5) other units with FFSP income.

**Current tax rates.** Our tax system combines a uniform flat-tax rate with a ranging flat-tax rate, i.e., staple FFSP income is subject to a nationally uniform flat-tax rate, with other FFSP income still subject to a ranging flat-tax rate. Nationally, the minimum is 5 percent and the maximum 20 percent. All Hebei products are taxed at a provincial government-set rate, with the tax rate for each variety being uniform throughout the province. Hebei's current tax-rate reduction list is: the tax rate on income from apples, pears, haws, grapes, and peaches reduced from 15 percent to 12 percent; that on watermelons and muskmelons reduced from 10 percent to 8 percent, that on aquatic breeding and aquatic treasures reduced to 8 percent, and that on income from logs reduced from 8 percent to 7 percent. Tax rates on all categories not reduced in 1993 will remain subject to previous provincial government provisions.

**Taxable base.** State provisions apply to real income from products, ordinarily called gross income or product-production income. For state farms, the real FFSP income is the sum of the real sales income from products plus the evaluated income from sales regarded as for personal use. For collective specialized farms and coalitions, it is the distribution income from such products. And for professional contractors, it is gross contracted income. For instance, if a certain Mr. Li contracts 100 pear trees, from which he harvests 20,000 kg of pears, and the taxable value per kg of pears is 1 yuan, then Mr. Li's taxable base should be 20,000 yuan.

**Income appraisal.** Work should generally be emphasized in the following three areas: 1) Calculation methods and principles should be defined. As FFSP varieties differ as to advantages, management levels differ by quality, cultivation area differs by amount, ownership nature is divided into public and private, and product sales periods and channels also vary, with generally sales for the whole year from one season of production and sales throughout the province and country for production in one area, it is necessary to take into account taxable-variety production features to set realistic calculation principles and methods. For state enterprises and institutions and collective-economy units with relatively

stable production and sales and sound accounts, taxable income can be set based on the year's real output. For products sold mostly on specialized wholesale markets and varieties purchased by the commercial supply and marketing sector, real sales income can be regarded as taxable income. And for peasant-contracted varieties with large output that is relatively concentrated and stable, the method of evaluation of taxable income in advance can be adopted. As it would be impossible to use a uniform method for setting taxable income throughout the province, all areas can suit measures to local conditions to set calculation methods that conform to local production features. 2) Thorough investigations should be made to master tax-source changes and market information. a) It is necessary to understand which units and individuals are engaged in FFSP production within collection limits, production scales, and production varieties. b) It is necessary to understand local production conditions for the year and for previous years, in order to set the methods and bases for calculating unit output. c) It is necessary to understand market conditions, in order to determine taxable value. 3) Appraisal through discussion should be organized to check findings data. In appraising and setting the taxable income of taxpayers, we should first announce the production operation conditions of taxpayers acquired through investigation, then announce the methods and criteria used to calculate taxable income, and ask taxpayers to state in detail their production conditions and declare their income, and finally have evaluation committees appraise and set the taxable income of each taxpayer, or directly set the payable amount.

**Tax calculation.** The basic formula is: the tax that should be collected for a particular product = the product's taxable income times the product's applicable tax rate. For instance, if peasant Zhang cultivates 50 haws trees, for which the set taxable output is 5,000 kg, the taxable value is set at 1 yuan per kg, and the applicable tax rate is 12 percent, then Zhang should pay 600 yuan in taxes (5,000 times 1 times 12 percent). In addition, the provincial government provides for the payment of a 10 percent local surtax of 60 yuan (600 times 10 percent), so that Zhang's total tax payment should be 660 yuan.

In the case in which land previously planted to grain, cotton, and edible oil crops is changed to FFSP cultivation, which land used to be subject to farm taxes, the State Council provides that FFSP taxes should be paid. We should generally use the method of supplemental collection of shortfalls, i.e., after calculating payable FFSP taxes based on FFSP taxable income and applicable tax rate, we should exclude the farm tax already paid, and then collect FFSP taxes on the difference.

**Reduction and exemption provisions.** In order to encourage production development and give consideration to real taxpayer difficulties, the state grants tax-reduction and -exemption considerations when taxpayers pay FFSP taxes. Based on national provisions



combined with Hebei's realities, Hebei has drawn up reduction and exemption provisions of two types: 1) Reductions and exemptions to encourage production development. For instance, for FFSP production on newly reclaimed mountains, hillsides, wastelands, and beach water areas, beginning in the year in which income is first earned, county people's governments provide tax exemptions for three to seven years and FFSP tax exemptions for one to three years. For income earned by agricultural research units and schools engaged in scientific experiments, county people's governments provide FFSP tax exemptions at their discretion. 2) Social reductions and exemptions. For poor peasants in rural areas, particularly longstanding minority-nationality poverty-stricken border areas, where tax payment is a problem, appropriate reduction and exemption considerations are provided.

**Collection principles.** The collection of FFSP taxes is a key link in FFSP tax collection management, the final criteria by which to check and evaluate the success of the whole tax collection process, and the last part of the revenue process. As the collection process requires strict enforcement of policy to ensure proper and timely tax payments, it must adhere to the following principles: 1) the principle of combining ideological indoctrination with policy publicity; 2) the principle of combining reliance on government leadership with public oversight; 3) the principle of adhering to independent collection by the revenue sector with collection coordination by the pertinent public sectors; 4) the principle of adhering to a combination of legal and executive means.

**Violation penalties.** The Constitution of the PRC provides that "PRC citizens are obligated to pay taxes according to law." Those who do not conscientiously live

up to their tax-payment obligations are dealt with according to the "PRC Tax-Collection Management Law." Current FFSP tax-payment violations fall mainly into the following four categories: 1) Tax avoidance. Collection organs should set deadlines by which avoided taxes must be made up and, when these deadlines are missed, charge overdue fines of 0.5 percent of avoided amounts a day from the date of avoidance. 2) Tax arrears. When this occurs, in addition to setting deadlines for making up such arrears, we also charge overdue fines of 0.5 percent of arrears a day from the date of such arrears. 3) Tax evasion. When this occurs, in addition to taxpayers having to make up evaded amounts by set deadlines, they are also fined two to five times the evaded amount, with those directly responsible for instigating, inciting, or abetting tax evasion being fined up to 1,000 yuan. 4) Refusal to pay. In addition to ordering resisters to pay owed taxes by deadlines and fining them up to five times the resisted tax, collection organs can also impose additional fines of up to 50,000 yuan based on particular taxpayer situation, as well as imposing fines of up to 1,000 yuan on those directly responsible for instigating, covering up, or supporting refusal to pay taxes. In severe cases of these four categories that constitute crime, collection organs will request judicial organs to deal with them according to the law.

All peasants and taxpayers need to correctly understand the significance of this national tax-adjustment, by conscientiously acting in accordance with policy provisions and declaring taxes accurately, in order to support national economic development with real action. Collection organs and personnel at all levels must brace up their morale, inquire deep into the grass-roots levels, and organize their collections strictly according to policies and provisions, in an effort to fully complete their FFSP tax collection tasks.

### Supreme Court Vice President on Economic Crime

93CM0496A Hong Kong LIAOWANG [OUTLOOK]  
OVERSEAS EDITION in Chinese No 34, 23 Aug 93 pp 3-4

[Excerpt] [passage omitted] At present, economic crime in our country is still very serious. Major cases are occurring all the time. A first type is where state officials take advantage of their position to corrupt, bribe or misappropriate larger and larger sums of public money, some even as high as millions or billions of yuan; a second type includes serious crimes of fraud using business contracts and stocks; a third type includes smuggling, tax evasion, and production of and dealing in fake and shoddy commodities. However, fewer suits have been brought up before the people's court. This is not in accordance with the actual criminal situation or the response from the masses.

Vice Director [of the Supreme People's Court] Gao Changli believes that cracking down on economic crime is a big issue which is directly related to combatting corruption and keeping the government clean as well as to ensuring the continuous, fast and healthy growth of the economy. The people's court must firmly hold a strategic stand: The more economic reform and openness there is, the more severe our action against economic crime should be; the longer reform and opening, the longer our battle against economic crime. It is totally wrong and extremely harmful to think that cracking down on economic crime will affect reform and economic development. Instead, severely cracking down on economic crime is an effective protection for reform and economic growth. We must firmly punish those grave criminals, according to the law, who have harmed reform and openness, disrupted the socialist market order and damaged the reputation of the party and the government.

Gao Changli attached special emphasis to the importance of judicial work in major cases of economic crime among all the levels of judicial organs. He holds that major cases are causing more and more damage and social impact to the society, and are the focus of the whole society's concerns. Therefore, we should treat judicial work on major cases as the focal point of combating against economic crime. For this, we should further amplify the system of registration and reporting of major economic crimes. We should firmly pursue with serious investigation and punishment, in order to apprehend the criminals, those major suits brought to the court which in particular cause a lot of social reaction and concern.

Vice Director Gao Changli also explained the focal points of the present crackdown against economic crime: First, we must continue to crack down on the crimes committed by state staff, especially officials who take advantage of their position and power to corrupt, bribe and misappropriate public money. Second, we must vigorously join the 'anticounterfeit' struggle, severely punishing the criminals who produce and deal counterfeit products. Third, we must get actively involved in combatting smuggling and severely punishing smugglers.

We must overcome any obstacle and severely punish according to the law those grave smugglers who collude with the outside, law enforcers who break the law, and those whose conduct is odious and damaging. We should resolutely punish according to law legal and non-legal persons directly responsible for, or in control in smuggling cases. Anyone who has shielded smuggling or whose conduct seriously infringes against the law should be brought to legal punishment. Fourth, we must severely crackdown on major criminals of fraud and tax evasion. While punishing economic criminals through imprisonment, we should also pay attention to the needed punishment as to their property. If the law says we should or we can confiscate their property or give them a fine, we should do as the law says. [passage omitted]

### Anti-Corruption Struggle in Provinces

94CM0008A Beijing RENMIN GONGAN BAO in Chinese  
4 Sep 93 p 1

[Article by Luo Bingyi (5012 3521 4135), Liu Shupu (0491 2885 2613), Ma Yubao (7456 3768 1405), Sun Wanlao (1327 8001 3666), Xiao Dezhou (135 1795 1558): "Rapid Development of Anti-Corruption Struggle in Guangdong, Shandong, Shaanxi, Wuhan"]

[Text] Since the second plenary session of the Central Discipline Inspection Commission, public security organs in Guangdong, Shandong, Shaanxi, and Wuhan have moved quickly into action, conscientiously studying the important speech by CPC General Secretary Jiang Zemin and the Central Party's anti-corruption instructional spirit. They have separately convened ad hoc meetings to formulate detailed measures for countering corruption and developing the anti-corruption struggle on a grand and spectacular scale.

At the Guangdong Public Security Department's 26 August working conference on criminal investigation, the department's director Chen Shaoji [7115 4801 1015], a member of the Guangdong party committee's standing committee, stressed that "when dealing with the problem of strictly controlling the police and opposing corruption, leaders of public security organs at all levels must employ the nature of the party in seriously dealing with this problem."

Representing the party committee of Guangdong's Public Security Department, Chen Shaoji demanded that contingents of public security and armed police forces comply strictly with "Eight Rules." In these rules it is forbidden to: 1) illegally seize smuggled goods; 2) assess arbitrary penalties and confiscations, and it is absolutely forbidden to unofficially announce quotas for penalties and confiscations, or to issue penalty and confiscation assignments; 3) arbitrarily collect fees by concocting various pretexts; 4) arbitrarily make financial levies or seek assistance; 5) violate the law for money, or sell the law; 6) exceed one's authority by interfering in economic disputes. In addition, 7) public security forces

are barred from operating companies, and public security cadres and policemen are not allowed to hold "second jobs"; (eight) except when engaged in official business, public security cadres, policemen, and armed police officers and men are not allowed to set foot in pornographic and gambling places such as those which offer "three kinds of companionship" and massages by the opposite sex.

Recently, the Party Committee of Shandong's Public Security Department held a large-scale meeting, at which it set forth five ideas about developing the anti-corruption struggle in a down-to-earth manner.

The Shandong Public Security Department's party committee has demanded that public security organs at all levels should first conscientiously study and completely understand the spirit of the speech by CPC General Secretary Jiang Zemin, to further strengthen their responsibility and sense of urgency concerning the anti-corruption effort, and enthusiastically put themselves into the anti-corruption struggle. Second, discuss this issue while studying, make note of the problems, continue to check and correct problems. This is especially so for leading cadres in provincial departments and offices, who must discipline themselves to be clean and honest, strict in their self-analyses, setting an example for the people. Third, establish and perfect a system of self-supervision, revise the relevant rules and regulations for clean, honest, and diligent management, with a concentration on uncovering and punishing those officers and policemen who violate discipline. Fourth, truly strengthen the leadership of the anti-corruption struggle, with one level controlling another, implementing the responsibility system level by level. Fifth, starting out from the anti-corruption struggle, promote and push every item of work development.

Recently, the Shaanxi Public Security Department, in formulating their "regulations for opposing corruption, maintaining cleanliness and honesty", demanded that public security organs at all levels take the anti-corruption struggle and the encouragement of honesty as a major and important political assignment, pay attention to what they do, doing it well and with achievement.

On the 22 August, Ai Pishan [5337 0012 0810], member of the Standing Committee of the Shaanxi provincial party committee and Director of the Public Security Department called for public security organs from throughout the province to express their opinions on carrying out the anti-corruption struggle. He called on public security organs at all levels and the broad masses of public security officers and policemen to stand in the front ranks of the anti-corruption struggle. He further called upon leading cadres to discipline themselves, and set a practical example for the rank and file of police officers and policemen by wholeheartedly serving the people and handling the laws impartially, never exchanging their authority for money, nor accepting bribes, bending the law, etc. There be an absolute halt to making profits from enforcing the law, and to the

unhealthy trend of making extra money from penalties, and even less to allowing the issuance of penalty quotas. It is forbidden to invest in enterprise stock, engage in either direct or indirect economic activities by taking advantage of one's authority or position, or supply conveniences for one's family, children, or relatives.

The Wuhan Public Security Office recently held a working conference on opposing corruption, encouraging cleanliness and honesty. They made contrasts with the "People's Police Qualification Standards", and found instances of all sorts of money worship, hedonism and extreme individualism in public security teams. When planning the next step of anti-corruption work, the party secretary of the Wuhan public security office, Liu Zhaoming [0491 3564 2494], stressed that there will definitely be adjustment or replacement of leading groups and cadres who can not keep clean and honest, who seek private profits through their authority; those who seek to use their authority for private gain, bending the law for the benefit of relatives or friends, grafting or accepting bribes and extorting money, must be punished by party discipline, administrative discipline, or the laws. For the time being, there will be some changes in sessions and branch office groups to aid some cadres in getting rid of the "network of relationships," changes in the directors of local police stations and heads of those departments which deal with certifications and licenses, transfers of some of the leading session and branch office (counties) cadres, their spouses and children, in those instances where the cadres have direct relationships with other units in this system, either higher or lower.

#### **Corruption Cases Among Public Officials Traced**

94CM0008B Beijing XIAOFEI SHIBAO in Chinese  
4 Sep 93 p 1

[Article by Liu Zishen (0491 1311 3234): "China, Crack Down On Corrupt Officials"]

[Excerpts] [passage omitted] Documents published in July by the State Statistical Bureau showed that China's per capita gross output is among the world's lowest, being less than \$400 per capita. The United Nations Food and Agricultural Organization, China is classified as being at the bare subsistence level.

Another official investigation demonstrated that at present, there are at least 85 million poor people with an annual income of less than 300 yuan who lack sufficient food and warm clothing!

Under precisely these conditions, if we pick a couple of news items from all the various magazine and newspaper articles, you immediately get another kind of feeling—[passage omitted]

According to statistics from the State Control Office, during the period from January to May of this year, 14.5 billion yuan in public funds were spent on the purchase of automobiles, an increase of 137 percent over the same period last year.



Even more surprising, although the State Council had some time ago imposed a strict ban on the purchase of imported cars, the figures show that from January to May of this year, 840,000 imports were brought into the domestic market, with a total value of HK\$13 billion, an increase of 4.3 times again that for the same period last year.

Also, figures for one Chinese province showed that during the first six months of this year, administrative units and institutes in that province imported 746 cars from Japan and South Korea, already exceeding the total for the entire year before.

The State Council had some time earlier stipulated quite explicitly the standards for what level of department could buy what make of car, namely, that those at the ministry level was authorized to acquire Audis, and those at the bureau level should acquire Santanas. However, the current popular formulation was: no matter how high the official was, they all bought Santanas; no matter which class of position it was, they all wanted to ride in Audis; when they lacked the money, they would rather use credit to buy the imported cars rather than accept domestic automobiles.

The forecasts indicate that people should be alert to the fact that consumption by societal groups this year is very likely to break through the 150 billion yuan level, and about 70 percent of that will be used for purchasing automobiles, which means that 100 billion yuan will be used to buy cars.

In a letter of the central authorities, angry employees of a work unit in Hebei province wrote that, "We employees worked with all our might to make a profit of 300,000, which was used to buy a tortoiseshell (car), ridden in by a tortoise!" [passage omitted]

There is a "red consumption" which is becoming common practice in China. Public funds are being used to pay for eating and drinking, dancing, bribery, tourism, and going abroad.... A bit of doggerel paints such a picture:

Spend a lot of public money on eating and drinking and dancing accompanied by a rude sexual touch.... like new consumption while never tiring of the old.... don't graft too much.

It is truly a case of everyone having his own excess. Accounts from the Zhejiang Department of Supervision show that from last year to the end of May this year, as many as 10,000 people (trips) traveled abroad, at a cost of 150 million yuan, most of it from public funds.

Investigation by the Zhejiang Department of Supervision revealed that the costs of "travel in three countries of Southeast Asia" and "travel to Hong Kong and Macao" was generally fixed by the route traveled and the time period of the trip. For example, for 10 days travel on the Thailand-Hong Kong route, everyone had to pay

HK\$7,288; for 9 days travel along the Thailand-Singapore route, everyone had to pay HK\$9,688; for the 16-day Thailand-Singapore-Malaysia-Hong Kong-Macao route, everyone had to pay HK\$14,900.

The Meteorology Office in the city of Dongchuan, Yunnan, is an institute with 46 employees (including retirees), the government allocated a fund of 180,000 yuan for "paying employees' salaries and for daily business cost... This fund is already depleted, with not even enough left to buy office supplies such as pens and ink; wage and capital payments cannot be made on time. However, as the director of the office, Zhao Yongming [6392 7167 2494] ignored the real difficulties of that unit, and used his authority to allow the scientific and technical service office attached to the institute allocate 150,000 yuan as his outside "inspection" fund. When cadres and masses in this office learned of it, they had a strong negative reaction, but Zhao Yongming ignored the masses' opposition, and in the end took a trip to such countries and areas as Hong Kong, Singapore, and Thailand. [passage omitted]

The Jiangsu Discipline Inspection Commission, in cooperation with taxation and procuratorial departments, recently inspected and handled six separate major and large cases of tax fraud. These six cases involved a total of 42 people, including five leading cadres of county and town party committees, 17 cadres of tax organs, nine managers or factory directors, and other enterprise staff.

Since 11 January 1992, in less than one year, six work units including the Yiling Local Industry Supply and Marketing Company wrote a total of 262 bogus sales receipts for fake imports of wireless and cable, clothing, recording papers, etc., with a total value of 213 million yuan RMB to meet the needs of tax defrauders. Tax organs in Funing and Jurong, etc., issued 36 credentials for bogus imported products, allowing 31.046 million yuan in tax refunds. It was discovered that from 3.9404 million yuan in fraudulent tax refunds, six enterprises obtained 1.3632 million yuan in handling fees; the individuals who were party to these tax frauds made 198,000 yuan and HK\$12,000, while the state and the relevant import-oriented enterprises suffered huge financial losses. [passage omitted]

The Liyuan Coal Mine in the city of Ruzhou is well-known both inside and outside Henan province. With only three years of elementary school education, Xu Zhonghe [1776 0022 0735] went from being a coal miner to Director of its Mineral Affairs Bureau. In August 1988, the 49 year old Xu Zhonghe became Acting Mayor of Ruzhou and Vice Secretary of the Municipal Party Committee.

After assuming the post of mine director in 1980, Xu installed many of his trusted followers and children in important departments of the Liyuan Mineral Affairs Bureau and in Ruzhou's city government. Of his six children, five of them used the mine's public funds to pay tuition. One of his daughters began drawing wages at

the mine while she was still in school. His first son-in-law was Director of the mine's Supply and Marketing Office, his second son-in-law was Vice Director of the Ruzhou Municipal Public Security Bureau, his second son was Director of the police substation of the Mineral Affairs Bureau, his second daughter-in-law was a police cadre in the Ruzhou Public Security Bureau, while the Directors of the Labor and Capital Department and, the Financial Department in the Mineral Affairs Bureau were relatives of Xu Zhonghe as well ...

Xu Zhonghe amassed a considerable amount of money through graft and accepting bribes. He had two private houses in his hometown, with a total of 20 rooms and 590 square meters. In addition, the Liyuan the Mineral Affairs Bureau allocated a four bedroom apartment to him. However, he was still not satisfied, so went in for large-scale construction, building up two separate garden buildings. These occupied more than 300 square meters of land, with a construction area of 40 square meters. These were decorated in a very fancy manner both inside and outside, and included every kind of amenity ...

Investigation by inspecting organizations produced a tabulation of the Xu Zhonghe family's property situation. A selective list of several big money actions follows: 1) Detained 18 bank savings funds made before May, 1990, in the amount of over 460,000 yuan. 2) Froze two bank savings funds from August, 1989, amounting to 110,000 yuan. 3) Determined that 90,000 yuan in bank deposits had been withdrawn. 4) Detained 6,229 yuan in cash. 5) Detained 54 savings of gold products, which were evaluated by the bank at 1121.62 g weight, with an estimated value of over 100,000 yuan ..... In the inspectors' final summary, Xu Zhonghe's family owned property worth as much as 1.145997 million yuan, among which 168,500 yuan was still of unknown origin.

On 30 May 1993, a No. 751 tourist bus drove out of Hangzhou for Wenzhou. At about 1000, a woman on the bus suddenly screamed, as a short man holding a sharp knife in his hand grabbed her.

His name was Zhang Xiaoshu [1728 2556 2562], and people in horror stayed away from this crazed wolf as he raped the captured woman. After raping her, Zhang Xiaoshu still didn't stop, but tried to force his victim to jump out a window and kill herself. At that point, the other passengers intervened and arrested him.

What happened after this is difficult to understand.

After the passengers had subdued the criminal, they escorted him to the public highway incident reporting station, which was still under the management of the city of Zhuji. After they made contact with the local police substation, the policeman on duty claimed that there was no one in the police substation at that time, and refused to accept this case. Although they had nothing to do with this, the passengers and the driver asked the policeman if they could borrow a pair of handcuffs, but this was refused as well. Finally, the driver had to take out 100 yuan to get Zhang Xiaoshu handcuffed.

Where was the criminal sent after that? This was another question worrying the passengers.

According to a report in the July 1st "Zhongguo Shangbao" [China Business Newspaper], during recent interviews by a reporter in some southern provinces and regions it was found that whenever the topic of loans was mentioned, enterprise managers being interviewed complained without exception that "If this problem cannot be resolved, it will be hard to stay in business."

According to responses from some enterprises, some of them were asked for an "under the table fee" (in some areas, it was called an "under the sea fee"). This was a cash payment without receipt to bank personnel handling a loan application procedure. The amount of the fee depended on the amount of the loan. In addition, there was a so-called "profit distribution", whereby the bank would share according to a certain rate in the profits earned by enterprises using the loans. A responsible person in a large commercial enterprise in the southwest angrily told the reporter that some banks even implemented advanced distribution based on forecasted profits, their share being deducted as their part of the "profit" from the loan in advance, because they feared that the enterprises receiving loans might not be able to fulfill their assignments. Some enterprises which were unable to obtain exactly the amount of the loan approved, since bank detained about 10 percent as "risk security". Just where this security went, enterprises dare not ask.

From this, people have learned a new phrase, "currency corruption". This is a new, vivid term created by some economists to describe the for current chaotic situation and trade corruption in the financial field.

The core of currency corruption lies in the pursuit of high interest interbank lending or direct involvement in the real estate, stock, and futures markets. These markets have a strongly congenial trend, based on the monopoly position of capital, using currency (capital) as the ways and means. This has completely commercialized certain policy functions of the national bank, gained for some people economic benefits they should not have, and some people have become rich due to this.

### Beijing Residents 'Worried' About Security

94CM0008C Hong Kong MING BAO in Chinese  
9 Sep 93 p A10

[Article by Ching Ch'uan (0079 1557): "Beijing Residents No Longer Enthusiastic About Politics; Half Of Those Interviewed Lack a Sense Of Security"]

[Text] How much of a feeling of security do Beijing residents have now? Not long ago, a survey and analysis

company in Beijing conducted a survey of the public's security sense. From five hundred questionnaires we can for the most part learn the feelings are concerning security among Beijingers. Among these, half of those interviewed worried about suffering the unexpected.

Beijing is the political, economic, and cultural center of China. Its residents are famous for discussing politics, and now with the developing market economy, people are more concerned about things closer to the current situation, relative to prices, job changing, children's education, insurance, etc. The survey showed that only 11.48 percent of the interviewees still engaged in political discussions, while 42 percent talked very little about politics or not at all about the subject. Another 48 percent discussed politics only at home with their families or relatives, or with close colleagues and others with whom they were familiar. Most people said they would not express their true political ideas where strangers were involved.

Are policemen reliable? Policemen used to be the insurers of social stability. Now, to what degree do people believe policemen? The survey showed that 54 percent of the people thought "some (policemen) are believable, some (policemen) are not," an obvious reduction in the degree to which police are believed. In recent years, the image and position of public security people is far less in people's minds than before. Not long ago, one city set up a telephone line for directing accusations at police, and within a month, there were 16 instances in which policemen were accused by the masses of violating the laws. Furthermore, feelings of resentment towards the police could be found everywhere: drivers cursed policemen for arbitrary assessment of fines and getting fat on money entrusted to their care; railway passengers complained that railway policemen in cooperation with train service workers were reselling sleeper tickets at a profit.

Although these are isolated cases, it is enough to destroy the image of policemen as a whole.

There are now in Beijing more than 1.1 million people who have come from other places. On the one hand these people have brought a great deal of convenience to life in Beijing, as most of the peddlers, tailors, and low level workers are people who came there from some other part of China; but on the other hand, many of these people who came to Beijing from elsewhere brought with them potential dangers. Many people conclude that the unstable features of Beijing are due to the city's overcrowded mobile population. The survey questionnaire showed that 37 percent of female workers need an escort when going to work and returning home. When asked "within a distance of one stop from home, are you afraid to go out at night alone?" nearly 25 percent said that they were afraid. When asked, "Are you afraid to have people visit you when you are home alone?" nearly 27 percent said yes. In addition, 52 percent of the women and 46 percent of the men expressed concern that some day they would be assaulted, and the places they worried

such an assault might occur were, in order: isolated streets and alleys, suburban bus stops, nearby residences, busy street areas, and entertainment places.

**Authorities Issue Copyright-Related Regulations**  
*94CM0003A Shanghai WENXUE BAO in Chinese*  
26 Aug 93 p 1

[Article by Xu Yuanming (6079 3220 2494): "The Three 'Regulations' Are Being Well Received: Calls Are Heard for Making Them Even Better and More Reasonable"]

[Text] The recently-issued interim regulations on "legal standards of compensation for rights to publish, in whole or in part," "legal standards of compensation for public performance rights," and "legal standards of compensation for recording rights," are being well received in the news and publishing industries, and in artistic circles. Some authors and artists in Shanghai believe they will be of great benefit in motivating artistically creative people and hope they can be made even more reasonable as they are actually implemented.

On August 4, the National Copyright Bureau, based on the "Author's Rights Law," issued a circular promulgating the three sets of regulations mentioned above. The regulations formally took effect August 1. Ren Yan (0117 1750), head of the Copyright Office of the Shanghai News and Publishing Bureau, believes that these three regulations are of great benefit in protecting the rights of authors. Generally speaking, the standard payment for rights to publish written works, in whole or in part, is 25 yuan per 1,000 characters; for rights to perform works already published, seven percent of gate receipts; and for rights to issue sound recordings, when payment is made by royalties, the wholesale price of the recording, times the royalty rate, times the number of recordings issued. The royalty rate for pure instrumental music, without lyrics, is 3.5 percent; for songs and operas, 3.5 percent, to be split between music and lyrics at a ratio of 60 to 40; and for spoken word recordings (including foreign works), three percent.

Ren Yan believes that the "interim regulations on legal standards of compensation for recording rights" will have the greatest impact of the three. He says, by way of example, that a certain record company in Shanghai once issued several million boxed sets of songs eulogizing Comrade Mao Zedong, earning an enormous profit, but paid very little to the composers and lyricists. They never paid more than 100 yuan for any one song. According to the new regulations, the composers and lyricists would have received more than 10,000 yuan for each song. Therefore, the regulations on recorded works will increase the expenses of recording companies, but at the same time will greatly enhance the initiative of composers and lyricists.

The famous composer He Zhanhao [0149 0594 6275], one of the composers of the violin concerto "Liang Zhu," when giving a news conference in his capacity as director of the Shanghai Committee for Protection of Music



Copyrights, said that the promulgation and implementation of these three regulations is truly a great event. For a long time now, because China did not have appropriate legal protections, composers did not receive fair payment for the music they produced after arduous exertions. On the contrary, music businessmen, Karaoke halls, and even government radio and television stations could use music for long periods of time for nothing, while the composers hesitated to ask for compensation, for fear of damaging working relationships.

He says that the Central Television Network once recorded "Liang Zhu," and moreover broadcast it nationwide several times, but did not notify the composers, nor pay royalties, nor even give credit to himself or Chen Gang [7115 6921], which was a violation of the composers' rights. He believes that, with these three regulations, artists can now demand fair treatment with the assurance that justice is on their side.

However, besides expressing gratification, He also made a few observations. First, he asked how the new regulations were to be enforced, and really put into effect.

Besides working through the "Association for the Rights of Musicians to Their Works," which is already established, it is also necessary to closely coordinate with other concerned parties, combining efforts and working together, so that artists actually receive the compensation that they should. Next, the present royalty rate of 3.5 percent is still low, compared to Hong Kong's royalty rate of six percent on recorded music. Beyond this, he asked whether parties concerned can consider other variable factors, in adjusting royalty rates.

He recommends that to encourage serious symphonic music and to raise the prestige of folk music from ethnic cultures, it might be advisable to make appropriate increases, within a certain range, in royalty rates for these kinds of music, or to allow composers to negotiate royalties with users directly. If all royalty rates are uniform, this will make composers write simple, popular pieces, and discourage those composers who make arduous efforts, to produce serious music, or folk music. This is unfavorable to encouraging serious music, and raising the prestige of ethnic culture.

## NORTH REGION

### Tianjin Economic, Technological Zone Develops

94CE0041 Beijing GUOJI JINGMAO XIAOXI  
[INTERNATIONAL TRADE NEWS] in Chinese  
31 Aug 93 p 1

[Article by Zhang Hongwen (1728 1347 2429), Meng Zijun, and Liu Qinglu: "In Land of Hope; Notes From Tianjin Development Zone Visit"]

[Text] Deng Xiaoping joyfully wrote this inscription during his inspection of the Tianjin Economic Technology Development Zone [ETDZ] on 21 August 1986: "There is great hope for the development zone." Seven years have since passed. Great achievements have made people focus on this land of hope.

The journalists saw from report forms of the development zone statistical bureau that in the first half of 1993 there was a gross industrial output value of 2.15 billion yuan, fiscal income of 180 million yuan, and profit of 296 million yuan, up 54.6 percent, 110.4 percent and 52.3 percent over the same period in 1992, respectively. According to information from the State Council Special Zone Office, in the first half of 1993, among 18 targets in China's coastal development zone network, the Tianjin development zone was tops on a list of 10 items including fiscal income, tax receipts and a new group of enterprises using "three forms of foreign investment." As an important northern Chinese window open to the outside world, how has Tianjin maintained the momentum for such forceful growth? In an interview, Yi Zhikuan [2496 1807 1401], management committee chairman, said: "The crux of the matter is in developing a new age pioneering spirit and steadfastly adhering to the path of a low input, high output, quickly constructed high quality industrial zone."

#### "Three Stage" Development

This is an original creation of the Tianjin ETDZ: Going from indebted development to rolling development, and on to full scale capital development.

At the end of 1984, a group of better troops and good generals rushed to the development zone to set up industries. Without a cent of national or local financial or political support, upon salt mines and barren shores people of the Tianjin development zone began the process of moving China's economy towards the world. They wrestled 370 million yuan in development loans from banks, which they managed rationally and used where needed most. In a mere three years' time, they completed three square km of an initial industrial zone and 1.2 square km of living space. Some 90 enterprises were in operation with an accumulated fiscal income greater than ten million yuan. Once there was income, they did not build office buildings nor workers' quarters but tied that together with a 370 million yuan loan to invest in infrastructure to perfect the investment environment—rolling development. By 1990 they had the

capability to use their own income for rolling development of one square km, which was outstanding among the coastal development zones. At the end of 1992, a total of 775 million yuan was invested in the Tianjin development zone to develop a five square km industrial zone and a 2.5 square km living zone.

However, in line with greater opening to the outside world, rolling development could no longer satisfy the needs of the continuous stream of domestic and foreign investors. Thus, they began overall capital development. At present, contracts have been signed for 1.2 sq km of the Korean Land Company, 1.3 sq km of the Jintai group and 3.65 km of the Taifeng group. Contracts are about to be signed on lands for a German industrial park and the Saige group of Singapore. A new round of foreign investment fever is quietly burgeoning.

#### "Three Emphases" Model

Construction begun, the Tianjin development zone rationally selected a development model which "emphasizes industry, utilization of foreign investment and export earnings." They believed that the starting point and cutting edge for the development zone of Tianjin, an old industrial base, was to explore the modernized industrial path of high efficiency, gradually getting on track with the international market and seeking to climb to the top rung in industrializing to motivate the inner city and surrounding areas.

Practice proves that selection of the "three emphases" model was entirely correct. First, the development zone had to use the most advanced contemporary industries and technology and rapidly establish a new modernized economic zone, creating an industrial system centered around the mechanical, electronics, new construction materials, precision chemical, light and textile, biomedicine and food processing industries, which account for 82 percent of the zone's enterprises. This not only motivated Tianjin's industrial development but many products fill in the city's blank spots, expand foreign trade exports, and accelerate the process of getting on track with the international market.

This pattern also made the Tianjin development zone implement the principle of "rely and spur on the hinterland, share benefits in common and jointly prosper." At present among the more than 2,000 registered development zone enterprises nationwide connected with and using inland funds, there is more than 6 billion yuan registered investment. Development zones provide ever expanding markets for the raw materials, primary products and semifinished goods of these areas. They also improve the grades of the products produced in enterprises in these areas with fully visible macroeconomic results.

**"1-2-3" Effect**

The Tianjin development zone industriously and thriftily operates "foreign businesses." It cherishes land like gold and seeks the greatest output from the least input.

When examining and approving projects, the development zone industry and commerce bureau judges the degree of input by considering the relationships between the ratios of project and funds, and invested funds and the area of land usage, or else it requires an investment amount of \$1.5 million to \$1.8 million per project, or \$300 to \$400 per square meter of land input. If the approved land is not fully utilized or not utilized for an extended period of time, the development zone has the right to rescind it.

The key to seeking a high degree of investment lies in the self confidence of the regional development of the managers plus the approval of investors. In more than eight years, the Tianjin development zone has devoted itself to building a life-like international investment environment, which includes quick work efficiency; rather complete laws, regulations and standard norms; intermediary services fully consistent with international practices; and a complete social security system. The United Planning [Lianhe Guihua] Company of the United States did an

appraisal report of the Tianjin development zone costing \$467,000: "The superior investment environment in the Tianjin development zone for foreign investors is superior to some processing zones in Taiwan, Korea and Thailand."

The tree of hope has green buds. At the end of June 1993, of the accumulated total of 1,284 "three kinds of foreign investment" enterprises in the Tianjin development zone, 43 are large- and medium-scale and high science and technology projects with investments greater than \$10 million, and more than 50 enterprises are global transnational firms. The Motorola Company of the United States spent four years comparing development zones, ultimately investing \$120 million in the Tianjin development zone. Recently it decided to seek to invest \$130 million. Most enterprises here operate well, four of which have annual output values exceeding one million yuan. Motorola's factory has yet to be built; it produces from a small plant, yet in the first half of 1993 it realized an output value of 350 million yuan.

In only eight years' time, the "1-2-3" input-output ratio is a good cycle of investing one RMB to attract \$2 in investment to output \$3 in value. It should be said that this is a miracle in China's development history.



### **'Shortchanged' by PRC Economic Control Of Hong Kong**

93CE0868A Hong Kong TANG TAI [CONTEMPORARY]  
in Chinese No 29, 15 Aug 93 pp 14-15

[Article by Hsiao Ch'uan-cheng (5619 0356 2398), professor of political science, Taiwan University: "Communist China's Policy Toward Taiwan Judged by the Hong Kong Experience"]

[Text] The repeated interventions by Communist China in Hong Kong have heightened Taiwan's vigilance. The author of this article analyzes Communist China's future policy toward Taiwan, judging by Communist China's policy toward Hong Kong, whether it will be, like in the case of Hong Kong, dual—political and economic—tactics, namely economically absorption and expansion and political rule by force and of winning over the minds of the people.

The "Ku-Wang talks" [talks between Ku Chen-fu (6581 2182 3940) and Wang Daohan (3076 6670 3211)] were the first step in a direction of peaceful contact between the two sides of the Taiwan strait, which had been hostile to each other for over 40 years, but which have us face new dangers and a hopeful turning point.

Through this time's "Ku-Wang talks" Communist China had hoped to immediately reach some substantial and functional agreements, and had hoped to bring about in the near future the "three communication links and four circulation links," and furthermore also to achieve the "one country, two political systems" arrangement, i.e. to achieve their ultimate objective of reducing Taiwan to a local component of China. How can we face up to Communist China? The experience of Hong Kong in this respect may well serve us as a reference.

#### **Economic Absorption and Political Rule by Force**

From the Sino-British Joint Statement and the enactment of the *Basic Law for the Hong Kong Special Administrative Zone*, down to the fierce objections to Governor Patten's political reform plan, the attitude of Communist China toward Hong Kong during the last ten years has been one of step by step tightening of constraints and of dominance, without the least inclination toward compromise. This process seems to indicate that Communist China will not, before taking over Hong Kong in 1997 and taking over Macao in 1999, out of goodwill grant Taiwan recognition as a political entity on an equal basis, and much less apply the concept of a "special administrative zone," as in the case of Hong Kong and Macao. That was set out in "Ye's Nine-Point Plan" [Ye = Ye Jianying (5509 0494 5391)] of 1981, which had been particularly drawn up to resolve the "Taiwan question."

During the last 10-odd years, Communist China's "dual tactics" toward Hong Kong has been, economically, one of absorption and expansion, and, politically, one of rule by force and winning over the minds of the people. That

means, economically, it was one of, on the one hand, granting such favorable conditions as to attract Hong Kong capital for investments and the building of factories in Shenzhen and other places, and, on the other hand, it was one of giving policy support and acting in collusion to expand the power of Chinese-financed enterprises in Hong Kong. In political respects, the policy was, on the one hand, one of adopting an overbearing attitude in suppressing the political democratization of Hong Kong and in rejecting any show of foreign concern by British or United States interests. On the other hand, it was a policy of winning over the minds of the "compradors" and "those with a good understanding of the times," so as to firmly guarantee the unchanged 50-year maintenance of the "one country, two systems" arrangement.

#### **Integration Into China Proper of Hong Kong During the Transitional Period**

Under Communist China's dual—economic and political—tactics, Hong Kong capital, particularly capital that had come in during the later cold war period, had flowed in in large amounts into Shenzhen and other places and has had the effect of "hollowing out" industry, in that the manufacturing industries were rapidly shrinking, while there was a large inflation in the service industries. The main economic role of Hong Kong had become one of a transshipment harbor and transshipment center for the mainland. Moreover, in the political field, many "assistants in foreign-related matters" and "subservient capitalists" came into being. This had the effect of not only gradually reducing the ratio of supporters of Patten's political reform plan, but also of exposing even more distinctly the helplessness of Hong Kong's middle class as to efforts at political democratization.

To ensure democracy and prosperity in Hong Kong, the United States enacted the *U.S.-Hong Kong Policy Act*, to indicate its concern for Hong Kong's future. Britain is expressing its concern for Hong Kong through the political reform plan of Governor Patten. However, up to now, these efforts at internationalizing Hong Kong will apparently not prevent the integration into China Proper of Hong Kong during the transitional period. The key to this is not only the rule-by-force attitude and method of Communist China, but also the fact that Hong Kong has been a colony in the past and has never had experience in independent self-government.

#### **A Similar Dual Policy Also Toward Taiwan**

The "Ku-Wang talks" have shown that Communist China's basic tactics toward Taiwan are still the same dual—political and economic—tactics as adopted toward Hong Kong. This means, in economic respects, adoption and expansion, and in political respects, rule by force and winning over the minds of the people. In economic respects, they are therefore demanding that Taiwan open up for mainland investments, and also allow the entry of semifinished products and investments from the mainland. In political respects, it is also a matter of continuously short-changing Taiwan. The Hong Kong example shows that a

comprador culture without any connotation of existence as independent entity and community will certainly not have even the least strength to withstand the dual tactics of Communist China. The best method to counter Communist China's "using the people to force official action" and "using the merchants to keep government hostage" would be to nurture consciousness of Taiwan's existence as an independent entity and community.

On the other hand, the reason why the United States, Japan, and the ASEAN countries pay such great attention to the "Ku-Wang talks," is that these talks could imply an adjustment of the political and economic relations between the two sides of the strait which could have a far-reaching influence on the political, economic, and security relations in the whole region. From a geopolitical viewpoint we see that Taiwan is like an outpost in an area where the maritime forces of Japan and the United States, on the one hand, and those of the mainland, represented by Communist China, on the other hand, contend for supremacy. From a geo-economic viewpoint we see that Taiwan is located between the globalism of Japan and the United States and the regionalism of Communist China and ASEAN. From the viewpoint of security and the politico-economic system we see that Taiwan is again in between the forces of peaceful evolution and of opposition to peaceful evolution.

To gain supremacy in the area, Communist China has in recent years continuously expanded the military power of its navy and air force, advocating regionalism (thus

held the first Asian Olympiad), and also advocated an "Economic Community of the Chinese," to oppose United States and Japanese influences, and to attract to its side all the ASEAN countries. As Taiwan is located at the intersection of all these political, economic, and security interests, occurrences in this area deserve our close attention. Playing the intermediary role by being located at this junction raises the value of our position in international politics and economics, but may also contain the danger of being torn to bits, especially on the level of economics and trade.

#### Earliest Possible Internationalization

The Hong Kong example furthermore teaches us that if internationalization is possible, it must be instituted as early as possible, but a precondition must be maintenance of existence as independent entity and community consciousness. However, in instituting internationalization today, there would be the problem of a lack of talents who could negotiate it, and also the lack of long-term tactics. Judging by the general reluctance of our diplomatic, economic, and trade officials to be dispatched to somewhat backward regions, by the generally escapist and hedonist inclinations of our youths, who lack an international outlook, and also lack sound studies of regional politics and economics, there is no preparation at all for internationalization. Promoting a movement somewhat like the Peace Corps in the United States and stepping up studies of the politics and economics of the developing countries, and having personal and material exchanges with them, seem to be most urgent tasks in the present work toward internationalization.

### Impact of PRC, Taiwan GATT Membership on Hong Kong

93CE0893A Beijing GUOJI MAOYI [INTERTRADE]  
in Chinese No 8, 15 Aug 93 pp 26-28

[Article by Li Zhonghai (2621 0112 3189), affiliated with the Mid-East Research Institute at Northwest University: "The Impact of Mainland China's GATT Reentry and Taiwan's GATT Entry on the Economic and Trade Relations Among Hong Kong, Taiwan, and Mainland China"]

[Text] Hong Kong is the most important channel for social, economic, and cultural ties between Mainland China and Taiwan, with the steady intensification and development of economic and trade relations between Mainland China and Taiwan in recent years having had a direct impact on Hong Kong's socioeconomic development. Thus China's recovery of our GATT signatory status and Taiwan's application for GATT membership as an independent tariff region (abbreviated hereafter as Mainland China's "GATT reentry" and Taiwan's "GATT entry") will be bound to more broadly and deeply impact Hong Kong's future socioeconomic development.

#### I

As social and political relations across the Taiwan Strait (abbreviated hereafter as cross-Strait) are gradually easing, with cross-Strait economic and trade relations also growing increasingly closer in a steadily expanding trend, this progressively changing trend contains the following features:

A. While cross-Strait trade is growing yearly, the trade imbalance is becoming an increasingly glaring phenomenon. 1) Indirect cross-Strait trade is growing ever brisker, with steadily increasing commodity types. 2) While cross-Strait trade dealings show each side supplementing the other's deficiency with its own surplus, the overall development is characterized by a vertical division of labor. 3) In the course of mutual dealings, Mainland China is proceeding from a number of considerations to provide preferences in areas, such as tariffs, for Taiwan's import of mainland products, which is promoting Taiwan exports to the mainland. 4) As opposed to the mainland, Taiwan is imposing strict limitations on imports of mainland products as to both type and quantity. This cross-Strait one side easing and the other tightening is creating a severe imbalance in cross-Strait trade. 5) As cross-Strait economic and trade relations are generally impacted too much by the arm-twisting of political factors, whether direct trade relations are established will be the decisive factor in future cross-Strait economic and trade relations development.

B. Taiwan's growing trend of one-way investment in Mainland China is overburdening the mainland's net assets-liability balance with Taiwan. 1) Investment by Taiwanese firms in Mainland China is spreading from the Zhu Jiang (Pearl River) Delta to east and north China and the Chinese hinterland. 2) The investment

form is changing from wholly-Taiwanese owned enterprises to multi-firm joint-shareholding and joint-venture investments. 3) Investment fields are gradually expanding from the earlier electronics and textiles to ones, such as heavy industry, industrial chemicals, and machinery. 4) Taiwan's executive authorities still place strict limitations on Taiwanese investment in Mainland China, with explicit provisions as to investment amount, industry, and form, which is one of the limiting factors in Taiwanese investment in the mainland. 5) The current solely one-way investment by Taiwan in the mainland, making it very hard for mainland industrialists to acquire direct access to Taiwan, and giving the mainland an increasingly imbalanced net assets-liability sheet with Taiwan, is detrimental to the smooth growth of cross-Strait economic and trade relations.

C. Cross-Strait S&T and cultural exchanges are weak, slow, and not advancing. 1) While both sides have their respective S&T strengths, the current restriction to only general academic exchanges does not enable a direct role in the field of economics. 2) The level of the industrial technology invested in the mainland by Taiwan is clearly too low. 3) The division of labor in the productive industrial technology on both sides is not high, with S&T cooperation awareness low. 4) The obstructed personal contacts are an objective limitation on the intensification and growth of S&T cooperation and development.

D. Cross-Strait economic development and business and trade relations growth is increasingly dependent on Hong Kong. 1) As both Mainland China and Taiwan are focusing their energies on external-orientation and exports, drawing on the international trade center of Hong Kong can bring them international market diversification. 2) As Mainland China and Taiwan are both hoping to develop and expand into each others' markets, Hong Kong is undoubtedly their most convenient intermediary and transfer site. 3) As Hong Kong's relations with Mainland China and Taiwan are roundabout in theory, they must avoid the political isolation in practice, by striving for a harmony of convenience. 4) Hong Kong's regional standing as an international trade, finance, and information center provides great conveniences for Mainland China and Taiwan's socioeconomic development.

#### II

The negotiations on Mainland China's "GATT reentry" and Taiwan's "GATT entry" are now underway. While a number of limiting factors will make it very hard for this to happen all at once, it is still just a matter of time. As to overall developments, while cross-Strait socioeconomic development still involves a certain gap, similarities do exist. a) Both sides are now devoting their efforts to developing export-guided, externally oriented economies. b) As to exports to the outside world, both sides are focusing on certain original primary manufactured goods, such as electronics, textiles, machinery and electronics, and heavy industrial chemicals, as export goods. c) Their export areas are both concentrated mainly in developed economic regions, such as North



America and the EC. d) Their largest trade surpluses are both with the U.S. (with Taiwan's export surplus with Hong Kong being clearly up in recent years). e) Both practice policies of regional trade protectionism with high tariff restrictions. f) Cross-Strait markets rely on entrepot trade through Hong Kong. When analyzing these generalities, it should be noted that Taiwan's economic development is obviously a step ahead of the mainland's. This can be seen mainly in: a) Taiwan's industrial technology level is relatively higher, with product quality and specifications closer to international norms; b) Taiwan's market forces are well-developed, with earlier participation in international market competition, higher market share, and better market return efficiency. c) Taiwan's economy has operated according to international practice longer, being more familiar with international markets, and understanding international market-operation regulations.

As to the overall development trend, Mainland China's "GATT reentry" and Taiwan's "GATT entry" are going to bring new opportunities and challenges to future cross-Strait socioeconomic development. Along with the international market integration, cross-Strait economic integration will also tend to grow and develop. In particular, the impact on cross-Strait economic development of Mainland China's "GATT reentry" and Taiwan's "GATT entry" will be concentrated mainly in the following areas.

A. It will fully promote cross-Strait economic and trade system-reform, bringing operations more into line with international practice.

B. The lifting of tariff and nontariff barriers will bring clear growth to cross-Strait international trade turnover. Preliminary projections are that Mainland China and Taiwan's imports will grow 30 percent and 40 percent, respectively, their exports will grow 25 percent and 30 percent, respectively, and the cross-Strait market will evolve a trade order of large imports and exports.

C. As to industries, industrial exposure will tend to increase, with the growing similarity in cross-Strait industrial structure being confronted with new challenges, and many enterprises operating under high-tariff protection likely to be eliminated through competition, which will force a faster cross-Strait industrial conversion and upgrading.

D. Taiwanese investment in the mainland will tend to become more of scale and strategic, in search of stable markets and economy-of-scale efficiency. And mainland industrialists will set foot in Taiwan's industrial sphere.

E. Cross-Strait two-way market development will become more conspicuous. On one hand, some Taiwanese industries will be transferred to the mainland due to international market obstacles. On the other, Mainland China's heated and expansionary economic growth with a foreign exchange shortage will bring a search for lower-priced Taiwanese products, which can only result in a further increase in the cross-Strait trade surplus, making Mainland China's one-way debt to Taiwan even

worse. From 1980 to 1990, Taiwan's trade turnover with the mainland amounted to \$15.787 billion, including a mainland deficit reaching \$10.05 billion. In short, for every \$3 of Taiwanese exports to the mainland, there is only \$1 of mainland exports to Taiwan, showing an obvious trade imbalance.

F. International market laws will have an impact. On one hand, Mainland China's past preferential steps taken toward Taiwan out of noneconomic considerations will gradually be restricted; on the other, Taiwan is likely to proceed from GATT regulations to further ease its restrictions on imports of mainland products. In short, the noneconomic factors in cross-Strait economic and trade relations will be further deemphasized.

G. While further relying on Hong Kong transit to increase cross-Strait trade, both sides could expand bilateral trade sites through direct trade forms, such as making regular cargo ship stops on the high seas to exchange goods, and opening up the appropriate islands at the shortest cross-Strait distance as trade centers, which would provide breakthrough opportunities for direct cross-Strait trade relations.

H. A conspicuous impact of Mainland China's "GATT reentry" and Taiwan's "GATT entry" on both sides is likely to be seen in cross-Strait S&T and industrial technology exchange and cooperation, with the likely changing trends being: 1) scientist and technician contacts will surmount the limitations of man-made factors; 2) S&T information-transmission will be faster; 3) S&T application will be more conspicuous; 4) S&T links will develop more broadly; 5) S&T and industrial two-way overlapping and integration will become more widespread.

I. Cross-Strait dependence on Hong Kong as an entrepot port will grow. The percentage of entrepot trade through Hong Kong will continue to increase for some years to come.

### III

As cross-Strait economic and trade intercourse increasingly expands, Hong Kong's status as a cross-Strait exchange intermediary zone and trade transit port will grow ever more important. Taiwan trade statistics show that Mainland China has now become Taiwan's seventh largest trading partner and fifth largest export market. In 1991, Taiwan's entrepot trade through Hong Kong to the mainland made up 48.8 percent of Hong Kong's imports from Taiwan, with mainland entrepot trade through Hong Kong to Taiwan accounting for 28.5 percent of Hong Kong's exports to Taiwan. This all shows that the intensification and development of cross-Strait economic and trade relations will have a positive impact on Hong Kong's stability and prosperity. Moreover, it also shows that all changes in cross-Strait economic and trade relations will have a direct impact on Hong Kong's socio-economic development.

A. The cross-Strait foreign trade order of "large-scale importing and exporting" that will occur after Mainland

China's "GATT reentry" and Taiwan's "GATT entry" will certainly further increase Hong Kong's entrepot trade turnover, thus increasing its intermediary trade earnings. Statistics show that Hong Kong's earnings from cross-strait entrepot trade reached \$600 million in 1990, which figure is projected to be \$1 billion by 1995. In 1991, \$19.7 billion, or about 30 percent, of China's overall import value of \$63.8 billion, came through Hong Kong.

B. Impacted and driven by this higher entrepot trade turnover, all industries interrelated with Hong Kong's economy will experience a period of stable prosperity and growth.

C. The developments and changes in cross-strait economic and trade relations will further raise Hong Kong's international economic standing. As to the course of growth of Asia's "four little dragons," both South Korea and Singapore have sustained repeated foreign trade deficits in recent years, with slumping markets and exports. That Taiwan has been able to maintain an international trade surplus and a regular surplus of international payments is due largely to Mainland China. As Mainland China's "GATT reentry" will certainly in the long-term internationalize mainland markets and make the mainland economy more world-oriented, it can be inferred that the development and prosperity of the mainland economy on which Hong Kong's economic prosperity depends will certainly ensure the sustained and steady development of Hong Kong's economy.

D. The stronger overlapping of market relations among Mainland China, Taiwan, and Hong Kong, with clearly higher market interdependence, will first benefit Hong Kong. As an intermediary, Hong Kong obviously has trade independence, being able to either take part in whatever is profitable or dissociate itself to avoid losses, which is precisely suited to Hong Kong's international role as a free port. So after Mainland China's "GATT reentry" and Taiwan's "GATT entry," cross-strait market dependence will be bound to increase dependence on Hong Kong, while on the other hand further enhancing Hong Kong's independence in the regional economic integration.

E. While Taiwan's current prohibition of direct investment in Mainland China is likely to ease after Taiwan's

"GATT entry," it will absolutely not be lifted immediately. But restricted by a deteriorating investment climate, the appreciation of the New Taiwan dollar, and rising production costs, the Taiwan region is experiencing an increasing capital outflow. Hong Kong is gradually becoming a transitional center for a Taiwan-investment buildup, and all large financial consortiums and groups are focusing on Hong Kong as a transition to the mainland, all of which is adding new vitality to Hong Kong financial and industrial circles.

F. From an international perspective, Mainland China's "GATT reentry" and Taiwan's "GATT entry" will sharply reduce trade friction with the United States and the EC over discriminatory restrictions, with the MFN issue becoming readily solved. In the long-run, this will contribute to Hong Kong's stability and prosperity. As Mainland China and Taiwan are both major trading partners with the United States, stable trade growth with the United States will ensure the steady growth of Hong Kong's entrepot trade turnover.

G. As both sides will be bound to revise their economic policies, particularly their foreign trade policies, in order to establish standardized, internationalized, and legalized market systems, three-in-one market linkups will become quicker and easier, with overall economic coordination and radiation capabilities both growing stronger, which will objectively ensure a smooth transition of Hong Kong society through the change of sovereignty.

H. But there will be certain negative impacts on Hong Kong's economic development. 1) As Mainland China, Hong Kong, and Taiwan's major export products are all now textiles, clothing, and electronics products, GATT membership—particularly as mainland textiles have clear competitive advantages as to price—will mean that this similarity of product markets will certainly affect Hong Kong's international market share. 2) In the long-run, after Mainland China's "GATT reentry" and Taiwan's "GATT entry," as Taiwan and Mainland China's international market operating capabilities will increasingly mature, a certain degree of independence will appear in the future three-in-one economic relations. Of course, this will require a certain cultivation period, so will not have an obvious impact in the short-term. 3) As socio-economic development will be stimulated to new heights, large amounts of funds and talent will be attracted, which will be bound to impact the overall course of Hong Kong's crucial period of industrial conversion and upgrading.

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